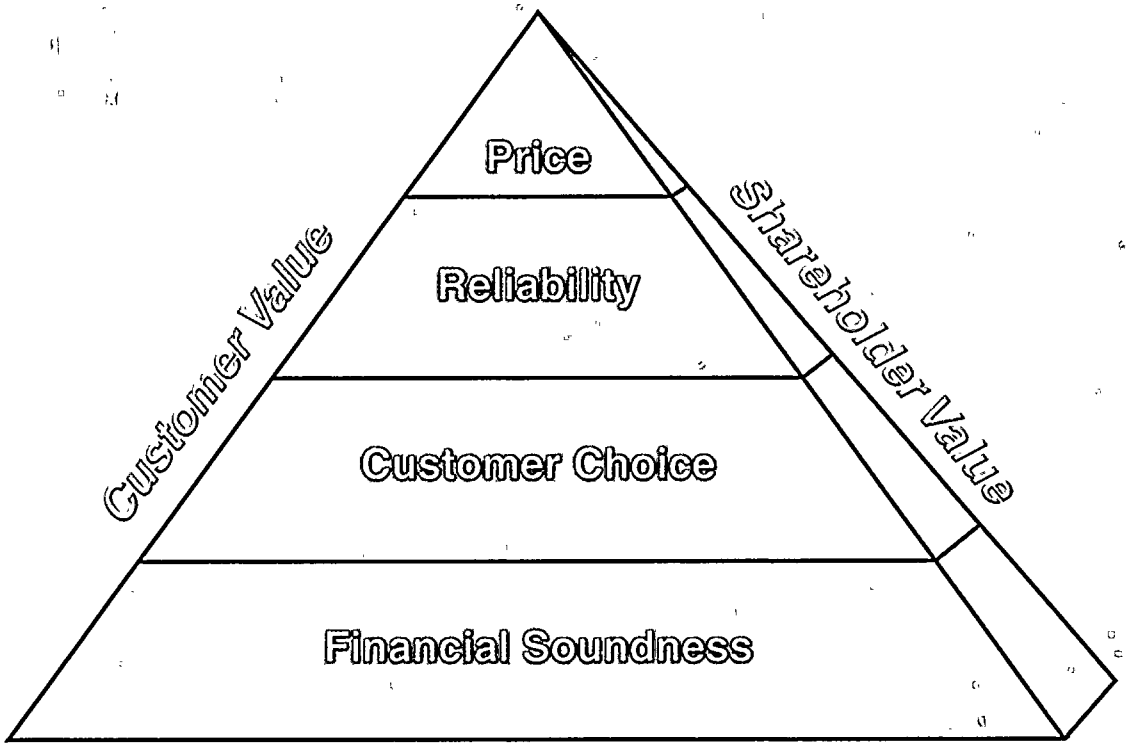


Our Principles of Competition

1996 Annual Report
Central Hudson Gas & Electric Corporation

Cover: In developing our plan for electric competition, there have been four basic principles which have influenced our planning and governed our actions: price, reliability, customer choice and financial soundness. We believe these four principles - which are equal in value - best represent the interests of our shareholders and customers.

Contents

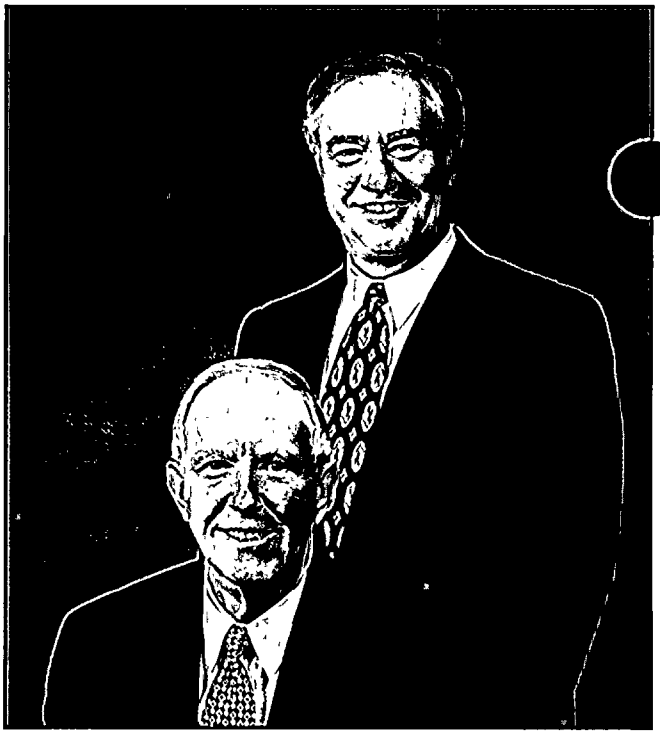
Financial Highlights

	1996	1995	Change
Operating Revenues	**$513,971,000**	$512,215,000	.3%
Net Income	**56,082,000**	$52,722,000	6.4%
Earnings Per Share	**$2.99**	$2.74	9.1%
Average Shares Outstanding	**17,549,000**	17,380,000	1.0%
Dividends Declared Per Share	**$2.115**	$2.095	1.0%
Total Assets	**$1,249,106,000**	$1,250,092,000	(.1)%
Electric Sales			
Own Territory (kwh.)	**4,608,211,000**	4,477,402,000	2.9%
Natural Gas Firm Sales			
(thousands of cubic feet)	**10,850,000**	9,649,000	12.4%
Electric Customers			
Own Territory (average)	**263,781**	261,876	.7%
Firm Gas Customers (average)	**60,470**	59,841	1.1%

Central Hudson

Your Energy Solutions Company™

Report to Shareholders



John E. Mack III, Chairman and Chief Executive Officer, seated, and Paul J. Ganci, President and Chief Operating Officer.

Once again the economy of the Hudson Valley is growing. For the first time since 1991, electric sales to our customers increased and we benefitted from both the growth of the economy and the creation of new jobs.

We are pleased to report that the year 1996 was one of solid performance, and we expect to continue in a strong position as the era of competition unfolds.

Earnings per share were $2.99 for 1996, up 9.1 percent from $2.74 in 1995.

Dividends paid to shareholders increased 1.0 percent from $2.09 in 1995 to $2.11 in 1996. During the past five years, the average annual increase in the dividend was 2.4 percent.

Book value per share increased 3.5 percent from $25.96 at the end of 1995 to $26.87 at the of 1996.

We also continue to be in an excellent cash position.

Several years ago, in view of the impending transition to a more competitive business environment, our Board of Directors evaluated our dividend policy. A decision was made to reduce our target payout ratio from 75 percent

70 percent and to begin moving toward the new target.

At the same time, our intention was to increase our dividend annually but to constrain the rate of increase to less than the rate of growth for our earnings. As of the end of 1996, our payout ratio stands at 71 percent, and we are well on our way to achieving our goal of a 70 percent payout ratio.

Over the past several years, the overall trend in electric utility credit ratings has been downward. The industry average now stands at the A- level.

Despite this overall negative trend, Central Hudson's rating has trended upward, and at a split rating of A/A-, is now above the industry average.

In 1996, Duff & Phelps upgraded our rating from A- to A, joining Fitch which had previously upgraded our rating to A.

Standard & Poor's and Moody's continue to rate our Company at A- or equivalent, but with a "positive outlook."

Another indication of Central Hudson's strong performance during 1996 is that the total return to our holders of common stock outperformed the EEI index of electric and gas utilities, and in particular, Central Hudson outperformed its regional peers.

The restructuring of the electric and gas industry will provide customers with opportunities to choose energy suppliers and an ever increasing spectrum of energy services. The traditional regulated utility, that was granted an exclusive franchise with a utility obligation to serve and a limited return on investments, is being transformed to a competitive and hopefully less regulated structure.

In developing our Plan for Electric Competition, there have been four basic principles which have influenced our planning and governed our actions: price, reliability, customer choice and financial soundness.

We believe these four principles - which are equal in value - represent the best interests of our shareholders, customers and employees.

Price *Central Hudson has one of the most competitive pricing structures among utility companies in the Northeast. Among the seven investor-owned electric companies serving the New York State, we have had the lowest average electric price in the State for four consecutive years. Our average price for electricity also is lower than the average for the New England states and New Jersey. During the transition period, we want to make certain that we are able to maintain the benefits of competitive pricing that our customers have enjoyed in recent years.*

Reliability *The electric system serving New York State is one of the most reliable in the world. During the transition period leading to competition, it is important to maintain the integrity of the State's electric system to ensure that customers continue to receive highly reliable electric service which is essential to our economic well-being and our quality of life.*

Customer Choice *One of the major reasons for moving from a highly regulated industry to a competitive business environment is to provide electric customers with choices; that is, to be able to select from alternative electricity suppliers and to choose from a variety of energy products and services. However, bringing about competition is a technologically complex undertaking. A transition period starting in 1997 and continuing through 1999 will provide us with time to implement our plan and to ensure that the benefits of competition are available to all of our customers.*

Financial Soundness *Maintaining our financially strong position is equally important to our customers as it is to our shareholders, because no utility can properly serve its customers if it lacks strong financial standing and financial resources. Our objective is to maintain our financial soundness in an increasingly competitive energy industry.*

Our success of the past five years in overcoming the adverse effects of the downsizing of our largest customer has served us well in establishing a competitive culture at Central Hudson. In so doing, we have the lowest pricing structure in the Northeast and have made significant strides in marketing our products, and reaching higher levels of service reliability and customer service. If we were taxed on the basis of income, rather than revenues, our rates would be at the national average.

In the years ahead, we expect that the region's economy will continue to expand. We are excited about the marketing opportunities in the Hudson Valley and those that customer choice and competition will create.

This year's annual report is a reflection of the dedication and commitment of the men and women at Central Hudson who have applied their innovation and energy to creating opportunities in our operations by controlling costs while finding ways to fulfill our vision of providing superior customer service.

Several years ago we introduced the concept of "ENERGY SOLUTIONS" to help certain customers find ways to solve problems. This value-added program has gained acceptance and has been expanded to all markets. Most recently we have seen increased opportunities to market electricity and gas outside the region through our unregulated subsidiary, CHEC, which continues to make contributions to our earnings.

The years ahead will be exciting and challenging to us. We believe that we have established a solid foundation to succeed. Our regulated culture has been replaced with a new generation that accepts change as a continuous process that requires engaging challenges and seizing opportunities through innovation and continuous improvement.

While we are proud of our past accomplishments, we remain committed to secure the future through improved performance in providing our customers with superior service and a variety of ENERGY SOLUTIONS at competitive prices.

Very truly yours,

John E. Mack III

Chairman of the Board
and Chief Executive Officer

President and
Chief Operating Officer

Carl E. Meyer, Senior Vice President Customer Services

Price, Reliability and Customer Choice Are Keys to Our Future Success In a Competitive Business Environment

Superior customer service is characterized by several key attributes. Customers must be able to choose from a variety of energy products and services; the price must be reasonable; and the service must be of the highest quality, with an emphasis on safety, reliability, responsiveness and convenience.

To maintain our pricing advantage over our competition, we have taken a number of steps:

• Consolidated our Customer Service Representatives in a centralized Call Center, which has increased our ability to handle telephone calls, particularly during storms.

• Developed a fully automated field operating system to create a "paperless" environment for our Customer Service organization to improve productivity and responsiveness.

• Developed and introduced new technology for operating and maintaining our gas mains safely and reliably at reduced cost.

• Adopted new construction procedures for installing gas services which provide customers with options to reduce time and costs.

With respect to improved service, we are conducting a pilot program which places detection devices in customers' homes to automatically notify us whenever a service interruption occurs. This information helps us to locate problems and to restore service more quickly. We have also introduced a new storm management system which provides storm damage information which helps us to establish priorities and to estimate service restoration times for our customers.

Another new service, called PowerLine, is an automated telephone system which provides customers with the convenience of a 24-hour system to obtain information about their account, provide a meter reading, or report a service outage.

Finally, we have implemented a continuous improvement customer survey program, which gauges the level of customer satisfaction with our products and services and identifies areas where our performance does not meet their expectations. The results of these surveys are used to target areas for improvement.

A technologically advanced Call Center is helping the Company control costs and better serve its customers through a faster, more efficient automated telephone system.

Managing the Cost of Fuel and Power Purchases Has Resulted in Major Savings for Customers

Effective Fuel Cost Management has made a significant contribution to lower costs.

During 1996, we negotiated new coal contracts which will enable us to achieve significant additional savings for our customers in the years ahead.

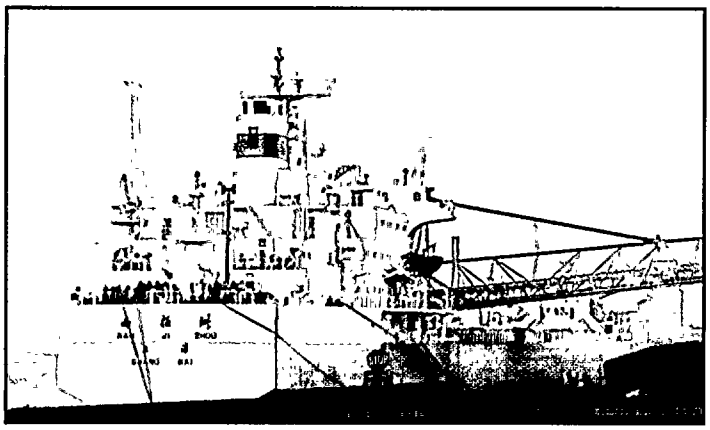
In the past, all of our coal had been purchased from domestic sources and delivered by rail. Last year, however, we negotiated a contract which provides for 50% of our coal requirements to be supplied from South America by waterborne delivery. To accommodate ocean-going vessels, we built a new unloading and handling facility to supply coal to our Danskammer Electric Generating Plant.

Having a new competitive source of coal enabled us to negotiate more favorable contracts for the domestic supply of coal and for its delivery by rail.

The significance of the new coal contracts and the coal terminal is illustrated by the fact that the cost of fuel represents about 50% of the cost of producing electricity. During 1996, our coal costs amounted to $41 million, of which 42% was transportation expense. By managing fuel and transportation costs, we are enhancing our ability to operate our Danskammer Plant more competitively now and in the future.

Another means of controlling the cost of electricity for our customers is through our participation in the wholesale electric energy market. In 1995, our energy purchases totaled 38 percent and the savings for customers amounted to $3.5 million. During 1996, we purchased 38.5 percent of our electric energy requirements from other generating sources, which saved our customers approximately $9 million.

Through our Power Marketing program, we are continually seeking opportunities to make the optimum use of our electric generating facilities by selling electricity in the wholesale markets.



The ocean-going ship shown above is representative of the type of vessel which is delivering coal from South America to a new Company coal unloading and handling facility on the Hudson river near Newburgh. As a result of having a new competitive source of coal, the Company has been able to negotiate more favorable contracts for the domestic supply of coal and rail transportation.

Allan R. Page, Senior Vice President Corporate Services

During 1996, the Company's individual and joint participation in interstate pipeline proceedings and settlements, in Washington D.C., has been successful in controlling natural gas costs. In addition, the Company lowered gas costs during 1996 by $1.9 million by renegotiating various transportation contracts, by releasing excess pipeline capacity and through off-system sales of natural gas.

Although we support competition, we do not believe that the attainment of this objective should be achieved at the expense of customers or system reliability, especially the reliability of the utilities' electric transmission systems. We believe that this issue must receive the highest priority among all the parties involved in bringing about competition in New York State.

As part of this process, we are complying with the requirements of the Federal Energy Regulatory Commission to open our electric transmission system to competitors, to share information about available transmission capacity and to establish standards of conduct.

Ronald P. Brand, Vice President Engineering and Environmental Affairs

A Corporate Focus on Customer Requirements for Environmental Quality, Service, Reliability and Competitive Energy Prices

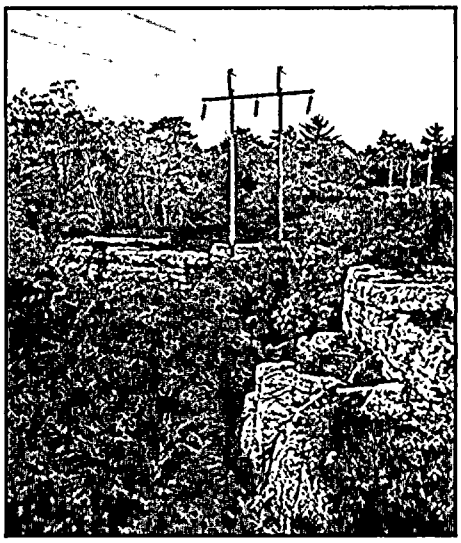
Compliance with environmental regulations is an essential part of every employee's day-to-day work activities which has enabled us to operate our business completely free of any environmental violations during 1996 and during the previous year as well.

Our on-going objective is to continuously improve our environmental performance while maintaining the reliability of electric service and providing competitive energy prices.

Specific objectives include: improving environmental performance in order to create opportunities to improve overall performance; operating and maintaining all equipment and facilities to reduce the risk of significant environmental impacts; and maintaining constructive and objective relationships with governmental agencies and citizen groups concerned with the environment.

With these objectives in mind, we conduct self-assessments which enable us to identify potential environmental problems and implement solutions in a timely and efficient manner.

At the same time, we must balance environmental objectives with the equally important objective of maintaining reliable electric service for our customers. While there remain many uncertainties about deregulation, one thing is clear: we will not compromise reliability.



Two electric transmission lines, which were built in the late 1920s and early 1930s, are being reconstructed in order to meet present and future electric needs of customers in Ulster County. One transmission line passes through scenic Minnewaska State Park, where a number of steps will be taken to protect the environment, including the use of a helicopter to transport personnel and equipment in and out of the park.

As an example, during 1996, we completed a $7 million substation and transmission line project to improve the reliability of electric service in and around the Town of Montgomery in Orange County.

In addition to reducing both the frequency and duration of electric interruptions, the new facilities will help meet increasing commercial, light industrial and residential growth in the area, which is near Stewart International Airport.

Another high priority is controlling the costs which determine the price of electricity. Starting in 1994, we initiated a program to reduce property taxes. While we believe we should pay our fair share of taxes, we do not want to pay a disproportionate share. To date, we have effectuated reductions of $2,765,000 compared to what we would have paid in the absence of our initiative.

Cheaper Fuel, Higher Efficiencies, Greater Availability of Generating Units are Helping to Control Production Costs

Benon Budziak, Vice President Production

The skills and flexibility of our employees, along with utilizing lower-cost fuel, operating our generating units more efficiently and increasing their availability, have resulted in a significant reduction in the cost of making electricity.

As a result of new contracts for both coal and for its delivery, we are burning lower-cost fuel to generate electricity.

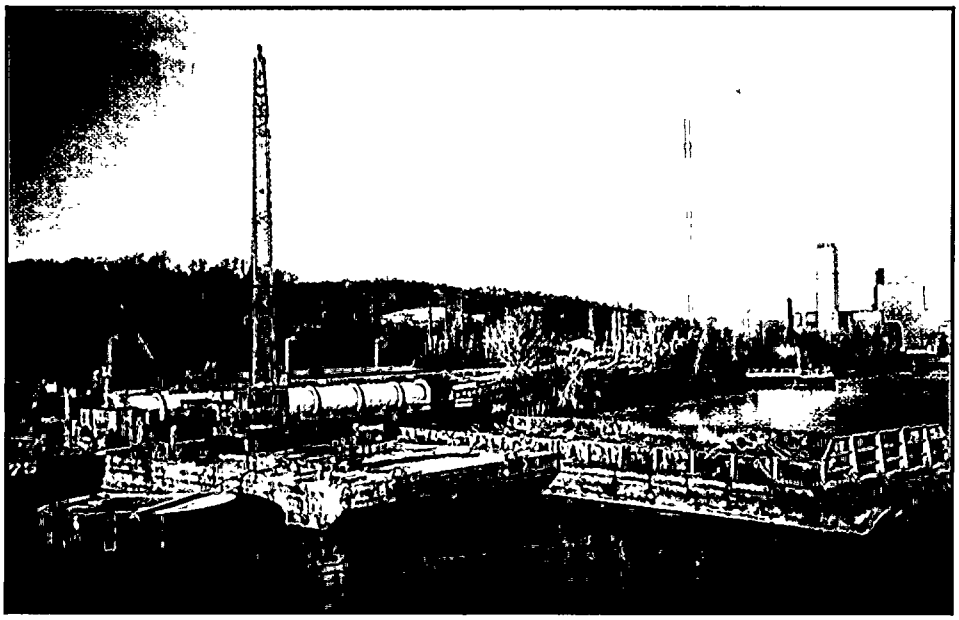
An additional step in our continuing efforts to control production costs has been to increase the availability of our electric generating units at our fossil-fuel plants by extending the time between scheduled maintenance outages from twelve months up to twenty-four months.

This change is being undertaken in conjunction with improved performance monitoring and improved maintenance, which is resulting in a reduction in the amount of unscheduled repair work at our generating plants.

Another significant development in controlling costs was the introduction of flexible work arrangements at our Roseton and Danskammer Generating Plants. We have combined two areas of responsibility - Yard Operations and Fuels & Results - into a single work group which are providing us with greater scheduling flexibility while enhancing our ability to improve our effectiveness.

During 1996, as part of our continuing program to control the price of electricity, we expanded our fuel transportation and delivery system by building a coal unloading and handling facility which is enabling us to receive waterborne deliveries of coal from ocean-going vessels. Previously, we were dependent upon the delivery of coal by rail to our Danskammer Electric Generating Plant.

Nuclear generation is becoming an increasingly important part of our generation mix. Our efforts, in conjunction with our cotenant partners, made the Nine Mile II nuclear plant a top performer during 1996 and our lowest fuel-cost energy producer.



One of the major construction projects undertaken during 1996 involved the building of a coal delivery and handling facility which is enabling the Company to receive waterborne deliveries of coal from South America. Ocean-going ships are delivering coal which is used to generate electricity at the Danskammer Plant, shown along the Hudson River in the background.

Joseph J. DeVirgilio, Jr.,Vice President Human Resources and Administration

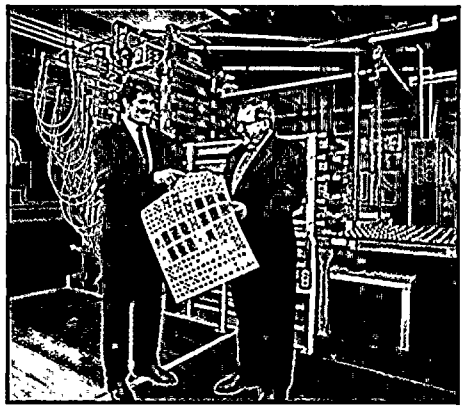
Our Energy Solutions Program is Helping Our Business Customers to Become More Competitive by Increasing Their Energy Efficiency and Productivity

Through our Energy Solutions program, we have been providing an array of value-added services to our commercial, industrial and institutional customers to help them stay viable and competitive in a challenging business environment.

Our program helps these customers make the best choices from a variety of value-added services, which include energy audits; industrial competitiveness surveys, which deal with efficiency, environmental impacts and productivity; alternative fuel analyses; competitive pricing; economic development services; lighting design and installation services; financing assistance and summary billing.

For example, Newburgh Molded Products, located in Newburgh, N.Y., was one of 500 customers who participated in our Energy Solutions program during 1996. We worked with this manufacturer of molded products for the cosmetics industry to install more efficient equipment which produced significant energy savings. These savings enabled this customer to successfully compete for new business and expand its operations during the year.

Central Hudson leverages its Economic Development activities by working in partnership with local, regional and New York State economic development organizations to publicize and cultivate prospects for the relocation of business to the Mid-Hudson Region.



The Manager of the Company's Energy Solutions program, left, examines a sheet of newly printed playing cards with the Vice President of KEM Plastic Playing Cards, Inc., a Poughkeepsie business which improved its efficiency, reduced its energy bills and enhanced profitability through the Energy Solutions program.

The needs of targeted customers are personalized to match the region's infrastructure, skilled labor requirements and quality of life objectives. We also are working with local officials to create industrial parks in key parts of the region.

We are pleased that our partnerships in economic development efforts are revitalizing the economy of the Mid-Hudson Valley and have created 4,000 new jobs since 1992. Recent success stories include a pool equipment manufacturer, a medical products manufacturer and a financial services firm which processes income tax returns.

Low electric prices have been a key component of attracting and retaining our commercial and industrial customers. For the last four consecutive years, our average price for electricity has been the lowest of any investor-owned utility in New York State. Our average price for electricity also is lower than in New England and New Jersey. Our gas prices are the third lowest in New York State.

Our Energy Solutions program and our Economic Development activity, coupled with our competitive prices, are a winning combination for our shareholders, our customers, and the Mid-Hudson Valley.

Donna Doyle, Controller

Administrative and General Expenses Targeted As Areas for Reducing Costs

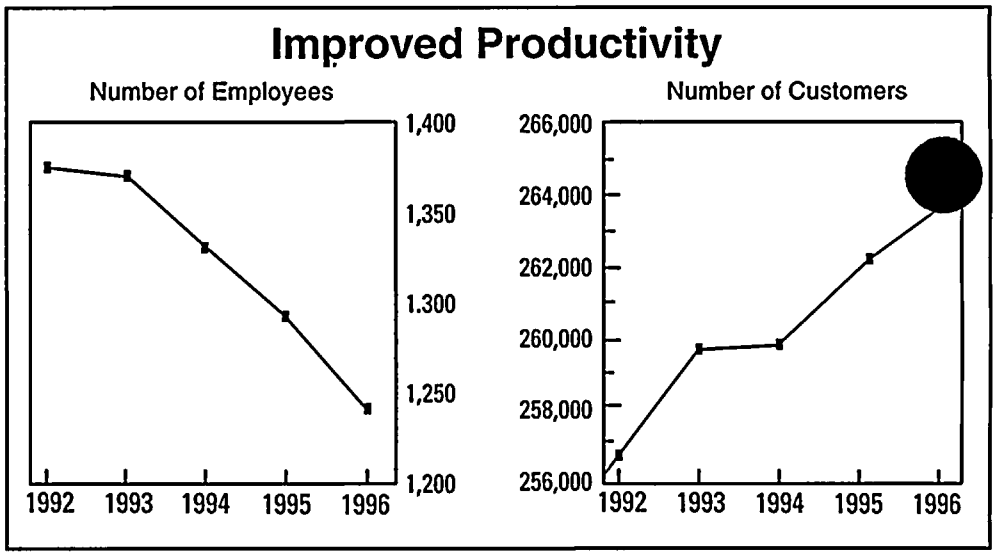
Assessment Being Made to Re-Deploy Resources to Serve External Customers

As part of our continuing corporate effort to control costs, we are targeting cost reductions in our administrative departments.

We are reviewing these departments to identify redundant practices and eliminate burdensome procedures. Our goal is to provide a streamlined level of administrative services that also maintains an appropriate level of internal control. Achievement of this goal may involve reassignment of administrative employees to areas that more directly serve our customers.

As part of this review process we will work with regulators to simplify reporting requirements. Presently, state and federal regulators have separate reporting requirements, but we are optimistic that they will accept a single format that will serve their respective needs.

Another focus of our review will be the organizational structure of our administrative departments. Historically we have staffed these functions for their peak work load. However, we believe we can create a reduced dynamic work force that moves among departments to cover the peaks. This concept will shift us toward a boundaryless organization that works more efficiently in a team-like environment.



Computer technology has enabled us to significantly reduce administrative work. We continue to computerize applications which are largely manual. For example, we are completing a new budgeting system which has taken a number of iterative steps out of the old process.

We are also developing an energy management system to replace the manual accounting for gas and electric energy. We are proud that we have developed these systems at low cost with our own internal resources.

At Central Hudson we are not afraid of a challenge. We believe this is one of the qualities that allows a company to stand the test of time. We rarely think that what we have done is "good enough" and we continue to pursue a better way. This is the challenge we have in reducing our administrative and general costs. We believe we can do this and at the same time enhance the quality of our service.

Financial Soundness and Flexibility Will Enable Central Hudson to Seize Opportunities in Both Regulated and Unregulated Sectors.

Steven V. Lant,
Treasurer and Assistant Secretary

Central Hudson has been ahead of its industry peers in recognizing the trend toward increasing competition, and in preparing itself financially for a more competitive business environment.

We recognized several years ago that our financial policies needed to be reevaluated, and that a platform of financial soundness needed to be established prior to the full scale emergence of competition in our industry. With each decision we make, we seek to increase our financial soundness and flexibility. This financial soundness will provide reserve strength against the vagaries of the market place, but more importantly will allow Central Hudson to seize opportunities, in both regulated and unregulated industry sectors, that will arise as our industry restructures.

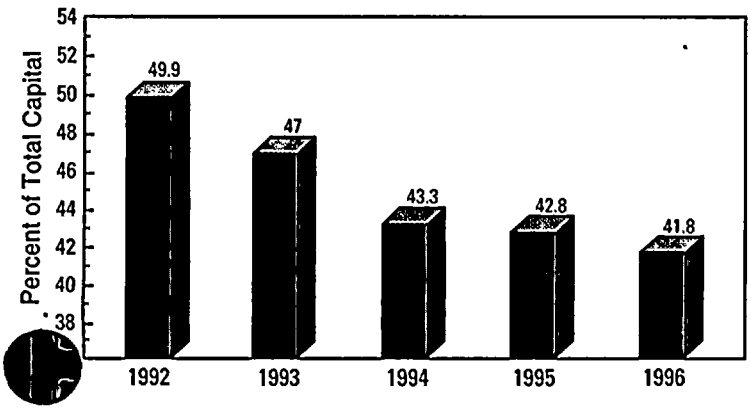
What have we done to establish this platform of financial soundness? First, we have established a stronger capital structure. We studied the capital structure of financially sound unregulated companies in mature, capital-intensive industries such as ours, and found that such companies generally carry a debt ratio of about 40%.

We have redeemed over $80 million of debt and significantly reduced our debt ratio over the past several years to less than 42%. In addition, we have refinanced at a lower cost most of our outstanding debt and preferred stock, and established new lines of credit with financially strong banks.

Another major goal in establishing a base of financial soundness has been to strengthen our cash flow. We reevaluated our target dividend payout ratio and reduced our rate of dividend growth in 1994 to improve internal cash generation. We reduced the level and improved our management of our construction program. All of our efforts have strengthened our creditworthiness and provide access at favorable terms to the capital markets. Such access to outside capital, in addition to our internally generated funds, will provide us with ample resources to seize opportunities for enhanced shareholder value.

One such opportunity is a common stock repurchase program, which was established in January 1997. Other opportunities available to Central Hudson include new ventures in energy-related industries, whether regulated or unregulated. As we consider such opportunities, we are confident that the base of financial soundness we have established will serve us well in the future.

Debt Ratio - 5 Year Trend



Corporate & Stock Information

Annual Meeting

The annual meeting of holders of common stock will be held on Tuesday, April 1, 1997 at 10:30 a.m. at the Corporation's General Offices, 284 South Avenue, Poughkeepsie, New York.

The management welcomes the personal attendance of shareholders at this meeting. A summary report of the meeting will be mailed to all shareholders of record at a later date.

Financial and Statistical Report

A comprehensive ten-year financial and statistical supplement to this Annual Report will be available to shareholders attending the Annual Meeting. Copies may also be obtained by writing or calling Steven V. Lant, Treasurer and Assistant Secretary, 284 South Avenue, Poughkeepsie, N.Y. 12601; telephone (914) 486-5254.

Security Analysts and Institutional Investors

Steven V. Lant, Treasurer and Assistant Secretary; telephone (914) 486-5254.

Annual Report to the SEC; Form 10-K

Shareholders may obtain without charge a copy of Central Hudson's annual report to the Securities and Exchange Commission, on Form 10-K, by writing or calling Ellen Ahearn, Secretary, 284 South Avenue, Poughkeepsie, N.Y., 12601; telephone (914) 486-5757. The copy provided will be without exhibits; these may be purchased for a specified fee.

Multiple Copies of this Annual Report

Shareholders who receive multiple copies of this Annual Report may, if they choose, reduce the number received by calling First Chicago Trust Company of New York at (800) 428-9578.

Common Stock Purchase Plan

Central Hudson offers a Stock Purchase Plan under which all potential investors may conveniently purchase common stock and reinvest cash dividends. All brokerage and other fees to acquire shares are paid by the Corporation. To participate, contact Paul J. Gajdos, Director - Office Services and Shareholder Relations, at (914) 486-5204 or First Chicago Trust Company of New York at (800) 428-9578. Copies of reports or information noted above may also be requested via our Web Site at http://www.cenhud.com.

Shareholder Information

First Chicago Trust Company of New York; telephone (800) 428-9578 between 8:30 a.m. and 7 p.m. weekdays.

Transfer Agent & Registrar, Common and Preferred Stock

First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, N.J. 07303-2500.
Internet:
HTTP://WWW.FCTC.COM

Stock Exchange Listings

Common: *New York Stock Exchange*

Stock Trading Symbol:

CNH

General Counsel

Gould & Wilkie
One Chase Manhattan Plaza
New York, N.Y. 10005

Independent Accountants

Price Waterhouse LLP
1177 Avenue of the Americas
New York, N.Y. 10036

Central Hudson
Your Energy Solutions Company™

Common Stock Market Price and Dividends Paid Per Share

	1996			1995		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$31 1/2	$28 3/4	$.525	$ 27 5/8	$ 26	$ .52
2nd Quarter	31 1/4	28 7/8	.525	27 1/2	25 1/2	.52
3rd Quarter	31 1/4	29 1/2	.53	30 1/2	26 1/4	[illegible]
4th Quarter	31 1/2	29	.53	31 7/8	29 7/8	.525

FINANCIAL SECTION

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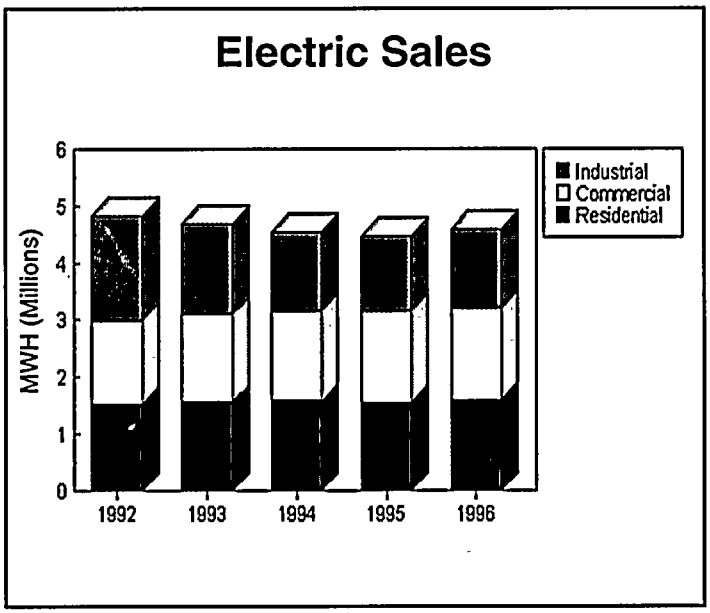
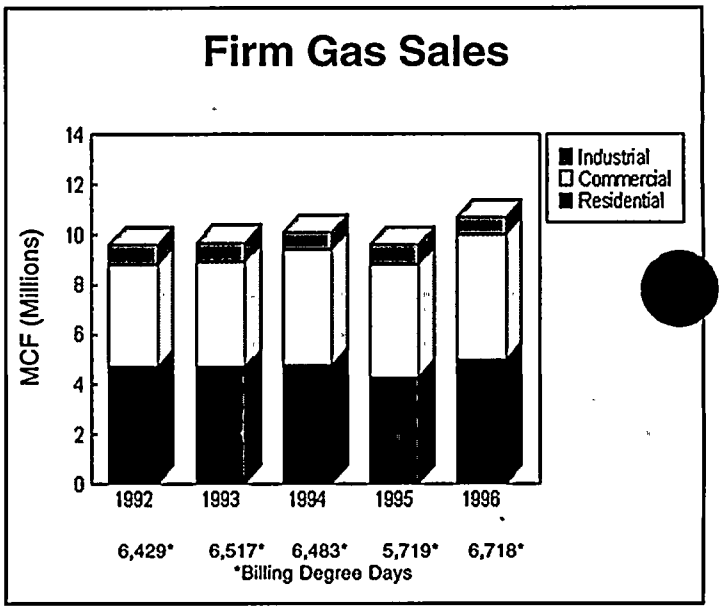
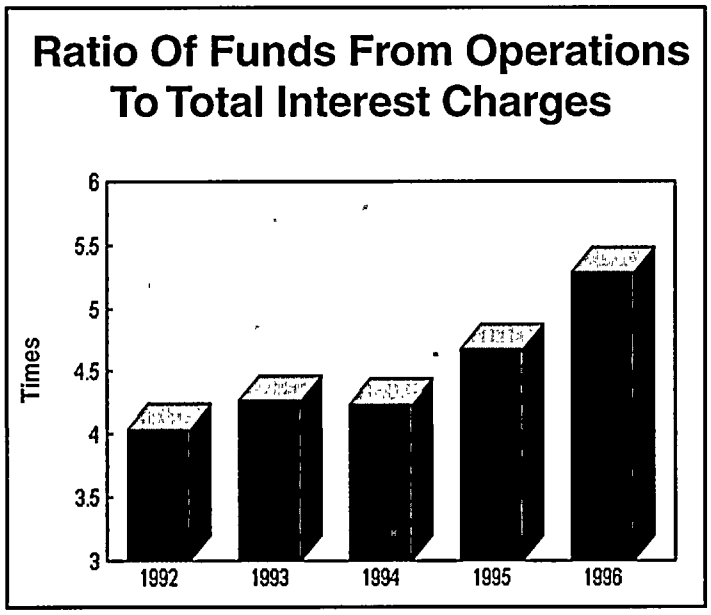
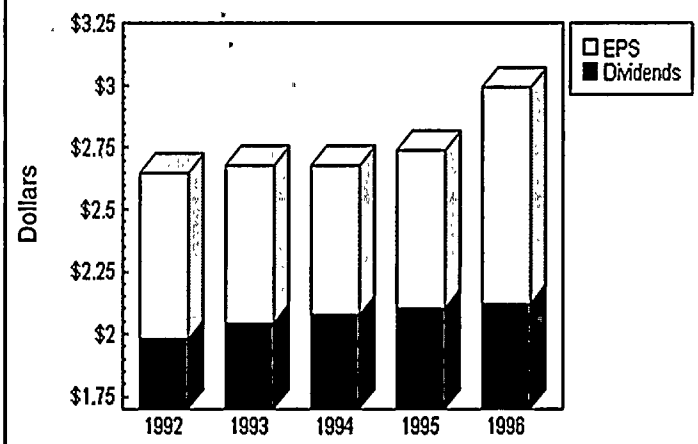
Financial Profile



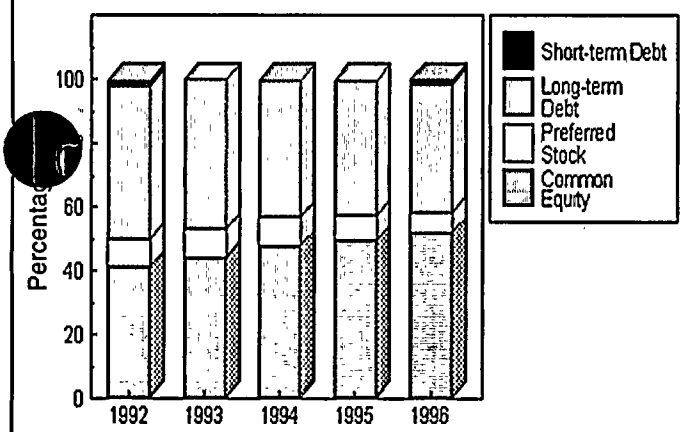




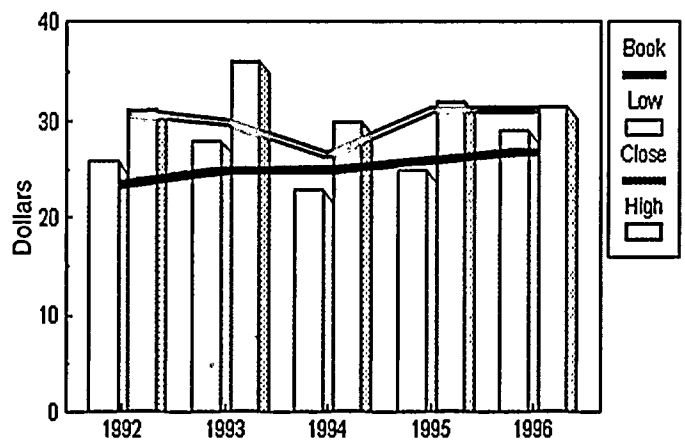
EPS & Dividends



Capitalization Ratios



Common Stock Prices



Five-Year Summary of Consolidated Operations and Selected Financial Data*

(Thousands of Dollars)	1996	1995	1994	1993	1992
Operating Revenues					
Electric	$ 418,761	$ 409,445	$ 411,082	$ 422,925	$ 427,[illegible]
Gas	95,210	102,770	104,586	94,448	96,121
Total	513,971	512,215	515,668	517,373	523,557
Operating Expenses					
Operations	267,779	274,665	274,497	274,477	283,787
Maintenance	28,938	29,440	32,716	34,486	34,226
Depreciation and amortization	42,580	41,467	40,380	39,682	39,596
Taxes, other than income tax	66,145	66,709	66,899	65,564	66,339
Federal income tax	32,700	29,040	28,043	28,603	25,111
Total	438,142	441,321	442,535	442,812	449,059
Operating Income	75,829	70,894	73,133	74,561	74,498
Other Income and Deductions					
Allowance for equity funds used during construction	466	986	866	934	596
Federal income tax	1,632	353	1,237	1,445	748
Other - net	4,815	8,886	6,296	5,167	4,427
Total	6,913	10,225	8,399	7,546	5,771
Income before Interest Charges	82,742	81,119	81,532	82,107	80,269
Interest Charges	26,660	28,397	30,603	31,717	32,[illegible]
Net Income	56,082	52,722	50,929	50,390	47,[illegible]
Premium on Preferred Stock Redemption - Net	378	169	-	-	-
Dividends Declared on Cumulative Preferred Stock	3,231	4,903	5,127	5,562	5,544
Income Available for Common Stock	52,473	47,650	45,802	44,828	42,144
Dividends Declared on Common Stock	37,127	36,459	35,541	34,497	31,545
Amount Retained in the Business	15,346	11,191	10,261	10,331	10,599
Retained Earnings - beginning of year	90,475	79,284	69,023	58,692	48,093
Retained Earnings - end of year	$ 105,821	$ 90,475	$ 79,284	$ 69,023	$ 58,692
Common Stock					
Average shares outstanding (000s)	17,549	17,380	17,102	16,725	15,901
Earnings per share on average shares outstanding	$2.99	$2.74	$2.68	$2.68	$2.65
Dividends declared per share	$2.115	$2.095	$2.075	$2.045	$1.98
Book value per share (at year-end)	$26.87	$25.96	$25.34	$24.65	$23.60
Total Assets	$1,249,106	$1,250,092	$1,250,781	$1,264,240	$1,167,124
Long-term Debt	362,040	389,245	389,364	391,810	441,096
Cumulative Preferred Stock	56,030	69,030	81,030	81,030	81[illegible]
Common Equity	471,709	454,239	436,731	417,846	378,[illegible]

* *This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the "Financial Section" of this Annual Report.*

FINANCIAL HIGHLIGHTS

Earnings Per Share: (Page 24)

Earnings per share of common stock were $2.99 in 1996 compared to $2.74 in 1995. This $.25 or 9% increase in earnings per share resulted primarily from increased electric and gas net operating revenues caused largely by an increase in usage by residential customers. Partially offsetting this increase in earnings in 1996 was the 1995 non-recurring gain from the sale of long-term stock investments. Earnings were also reduced due to an increase in employee wages and associated fringe benefits, which the Company has been controlling through the steady reduction of its workforce.

Dividends Per Share: (Page 28)

The quarterly dividend rate was increased to $.53 per share, effective June 28, 1996. This represented an increase of 1% over the previous quarterly rate of $.525 per share. Dividends paid to shareholders in 1996 were $2.11 per share as compared to $2.09 per share in 1995. No portion of the 1996 dividend constitutes a return of capital.

Economy:

The Company's involvement with the expanded economic development efforts of local and state development corporations continued to help attract diversified employment opportunities to meet the needs of the Hudson Valley's qualified labor force. A number of employers have relocated to or expanded within the Company's service territory during 1996, including various manufacturers and service organizations, adding approximately 600 full-time positions and 3,800 seasonal and part-time positions. In addition, the United States Postal Service recently increased its employee count by 1,000 in Southern Dutchess County.

Electric Sales: (Page 25)

Sales of electricity within the Company's service territory increased 3% in 1996. This increase in sales of electricity is due largely to an increase in usage by residential customers.

Gas Sales: (Page 25)

Firm sales of natural gas increased 12% in 1996 due to an increase in usage by residential, commercial and industrial customers, and the unseasonable hot and/or cold weather experienced in 1996 when compared to the weather conditions of 1995. Interruptible gas sales decreased 78% due to a significant decrease in boiler gas usage at the Company's Roseton Electric Generating Plant.

Rate Proceeding - Electric: (Page 23)

By Order, issued and effective May 20, 1996, the PSC required the Company to submit, by October 1, 1996, the Company's plan for the transition of the State's electric industry from a highly regulated industry to a competitive market.

On October 1, 1996, the Company responded to the Order with the following key objectives: 1) maintaining the reliability of electric service, 2) providing electric prices which are competitive, 3) offering customers choices in selecting their electric supplier, and 4) keeping the Company financially strong.

Rate Proceeding - Gas: (Page 23)

By Opinion and Order, issued and effective October 3, 1996, the PSC authorized no increase in the Company's base gas rates. The Order recognized a $500,000 revenue requirement deficiency, but eliminates such deficiency through rate moderation by the use primarily of previously retained profits from interruptible gas sales.

Common Stock: (Note 5)

In May 1996, the Company converted its Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan from original issues of common stock to open market purchase. This change was made because the Company achieved its target common equity ratio of 52%. At the end of 1996, a share of common stock was selling at $30.375 while the book value per share was $26.87. The Company plans to repurchase approximately 250,000 shares of its common stock during 1997.

Financing Program: (Notes 5 & 6)

On January 1, 1996, the Company optionally redeemed its 7.72% Series Cumulative Preferred Stock at a redemption price of $101.00 per share. The $13.1 million redemption price paid and associated costs were funded through internal sources.

On May 1, 1996, the Company redeemed $30 million of the Company's First Mortgage Bonds, 8 3/4% Series due 2001 at a redemption price of 102.07% of the principal amount. The $30.6 million total cash requirements were financed with a combination of cash and short-term borrowings.

By Order, issued and effective December 4, 1996, the PSC has authorized the future issuance and sale of certain debt and equity securities of the Company.

Taxes:

In 1996, the Company incurred $98.8 million for operating taxes levied by federal, state and local governments representing 19 cents of every dollar of revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPETITION

GENERAL

The Company is subject to regulation by the Public Service Commission of the State of New York (PSC) and by the Federal Energy Regulatory Commission (FERC). These agencies have each adopted policies that focus on competition in gas and electric markets. As a result, the public utility industry is facing increasing competition and deregulation initiatives across the country and in New York State.

The Company expects that such initiatives will produce significant changes in gas and electric markets; however, the Company cannot predict the scope, timing or consequences of these changes.

Due to the rapid change in the utility industry, the Company has considered and will continue to consider various strategies designed to enhance its competitive position and to adapt to anticipated changes in its business. The Company's goal is to be the energy and energy services provider of competitive choice to its customers. In order to achieve this goal, the Company has implemented, and will continue to implement, appropriate cost-reduction measures.

Currently, the Company is the lowest cost electric provider in New York State and, through strategies and cost-reduction measures such as those described below, will strive to remain in that position. The Company seeks to reduce costs of capital and to enhance shareholder value by redeeming or refinancing debt or preferred stock or by repurchasing its common stock. Measures which have been put into place to improve the Company's position in a competitive electric marketplace also include: operating certain of its generating units on alternating six-month intervals and/or the placement of certain of its generating units on "ready reserve"; extending routine production maintenance cycles to 24 months; satisfying a portion of its power requirements with purchased power from energy providers outside the Company's service territory when it can be obtained at a lower cost than if such power were generated by the Company; reducing contractor costs by redeploying its own workforce; and reducing its workforce through attrition.

In its gas operations in 1996, the Company began selling gas for resale to local distribution companies (LDCs) not in the Company's system. In 1995, the Company entered into a five-year agreement to sell natural gas to an electric generating plant in Massachusetts. Another strategy implemented is capacity release. LDCs, such as the Company, are permitted to offer their unutilized firm transportation service to others for a fee. This program, which was used at various times in 1996, gives the Company an opportunity to defray some or all of the monthly fixed charges when its firm gas transportation capacity is not fully utilized and reduces the costs billed to the Company's firm gas customers. The above initiatives resulted in a savings of $1.5 million to the Company's firm gas customers in 1996.

RECENT DEVELOPMENTS

FERC - Electric

On April 24, 1996, the Federal Energy Regulatory Commission released Order Nos. 888 and 889, promoting wholesale competition between public utilities by providing open access, non-discriminatory transmission services. The Orders have the effect of (i) requiring electric utilities to open their transmission lines to wholesale competitors, while allowing recovery of certain "stranded costs," (ii) requiring electric utilities to establish electronic systems to share information about available transmission capacity subject to certain standards of conduct, and requiring certain "functional separation" of power marketing from other operations. The Company duly filed its open access transmission (OAT) tariff with FERC, as required by Order No. 888. The OAT tariff has been suspended by FERC subject to its administrative review process, which is currently on-going. Under the pending OAT, the Company must offer transmission service to wholesale customers on a basis that is comparable to that which it provides itself. The Company is also required to offer and/or provide certain ancillary services which contribute to the reliability and security of the transmission system. Pending completion of the administrative process, the Company can make no prediction as to the effect of its OAT. On December 30, 1996, the New York Power Pool (NYPP), of which the Company is a member, filed an interim restructuring plan with FERC in response to the requirements of Order No. 888. On January 31, 1997, the NYPP filed an additional restructuring filing which includes proposals to establish an Independent System Operator, a Power Exchange and a New York State Reliability Council. Pending the outcome of such proceedings as the FERC may require in response to such filings, the Company can make no prediction as to the effect on it of these filings, or of compliance with FERC Order Nos. 888 or 889.

New York - Electric

Competitive Opportunities Proceeding: In August 1994, the PSC instituted an investigation of issues related to a restructuring of the electric industry in New York (Competitive Opportunities Proceeding). The overobjective of the Competitive Opportunities Proceeding is to identify regulatory and rate-making practices that will assist in the transition to a more competitive electric industry.

On May 20, 1996, the PSC issued its Order (Order) related to a restructuring of the electric industry in New York State in the Competitive Opportunities Proceeding. The Order sets forth the PSC's vision and goals for the future of the electric industry in New York State. The Order calls for implementation of a competitive wholesale power market in early 1997 and the introduction of retail access for all electric customers in early 1998. In addition, the Order calls for reducing rates of consumers, increasing customer choice, continuing reliability of service, continuing programs that are in the public interest, allaying concerns about market power, continuing customer protections and the obligation to serve. In the Order, the PSC strongly encourages divestiture, particularly of generation assets, but does not require it. The Order states that incentives for divestiture will be developed individually for each utility in conjunction with its rate and restructuring submission, which was due on October 1, 1996. The r also states that utilities should have a reasonable opportunity to seek recovery of strandable costs, which are those costs which may not be recoverable in competitive markets, consistent with the goals of reducing rates, fostering economic development, increasing customer choices and maintaining reliable service. Certain aspects of the restructuring envisioned by the PSC, particularly the PSC's apparent determinations that it can deny a reasonable opportunity to recover prudent past investments made on behalf of the public, order retail wheeling, require divestiture of generation assets and deregulate certain sectors of the energy market could, if implemented, have a negative effect on the operations of New York State's investor-owned electric utilities, including the Company.

On September 18, 1996, the Company joined with six other New York State utilities and the Energy Association of New York State (Petitioners) in filing a lawsuit in the New York State Supreme Court in Albany (Court) to annul the Order. The lawsuit contended, among other things, that the PSC (i) failed to follow proper procedures for reaching a decision in the Competitive Opportunities Proceeding, and (ii) lacked the statutory or legal authority to disallow a reasonable opportunity for utilities to re- past expenditures prudently incurred to fulfill their legal obligation to provide electricity service to the public, (b) mandate retail wheeling, (c) deregulate the rates charged by electricity generators or the energy services sector, and (d) order divestiture of the utilities' assets. The lawsuit sought a declaration that the Order is unlawful, or in the alternative, that the Court clarify that the PSC's statements in the Order constitute a policy statement with no binding effect. By a Decision and Order, dated November 25, 1996, the Court denied Petitioners' request to invalidate the Order. Although the Court stated that most of the Order was a non-binding statement of policy, the Court rejected the Petitioners' substantive challenges to the Order. On December 24, 1996, Petitioners filed a Notice of Appeal to the Third Department of the Appellate Division of the Supreme Court of New York State with respect to the Court's Decision and Order. Oral argument in the Appellate Division has not yet been scheduled, but a decision is expected by the end of 1997.

Despite the commencement by Petitioners of said lawsuit, the Company was obligated to comply with the provision of the Order which required the Company and four other electric utilities to file a response to such Order incorporating its plan for the transition of New York State's electric industry from a highly regulated industry to a competitive market.

On October 1, 1996, the Company responded to the provision of the Order. The Company's response addressed its plan for the transition of New York State's electric industry from a highly regulated industry to a competitive market. The Company's October 1, 1996, filing identified four key objectives for its transition to a competitive environment: (i) the maintenance of the reliability of electric service, (ii) the provision of competitive electric prices, (iii) the offering of choice to customers in selecting their electric supplier, and (iv) keeping the Company financially strong. The key provisions of the Company's submission were: (i) maintaining stable electric base prices for all customers for three years, (ii) exploration of opportunities to offer discounts to the Company's largest industrial and commercial customers in considerations for their commitment to purchase their full energy requirements from the Company, (iii) the provision through 1999 to maintain all services currently provided to all customers, and (iv) the exploration of the development of a pilot program to provide customers with a choice of continuing to receive full electric service from the Company or to purchase electric energy from other suppliers.

On October 9, 1996, the PSC issued an order establishing procedures for a completion of discovery and settlement negotiations regarding the utilities' October 1, 1996 submissions, and, in the absence of settlement, for administrative litigation before a PSC Administrative Law Judge. As later amended, the procedures require that any

hearings, as well as the submission of briefs and the closing of the record, must be completed no later than March 8, 1997. The Company has been meeting with the PSC staff and active parties to this proceeding for the purpose of exploring whether a settlement is possible, and is not able to predict the outcome of these discussions.

Given the uncertainties regarding the Competitive Opportunities Proceeding and the Petitioners' lawsuit to annul the Order in the Competitive Opportunities Proceeding, the Company is unable to predict the outcome of this proceeding or its ultimate effect on the Company's financial position or results of operations.

Niagara Mohawk Proposal: On October 6, 1995, as publicly reported by Niagara Mohawk Power Corporation (Niagara Mohawk), Niagara Mohawk filed a proposal with the PSC which provides for a corporate restructuring designed to create an open, competitive retail electricity market, deregulate electricity generation in Niagara Mohawk's service area, allow its customers, by year 2000, to choose their electricity supplier and freeze or reduce electricity prices over the next five years. The proposal was subsequently amended on August 1, 1996 by Niagara Mohawk. As amended, the restructuring would place Niagara Mohawk's non-nuclear power plants (which would include Niagara Mohawk's interest in the Roseton Steam Electric Generating Plant, Roseton Plant) and unregulated generator contracts in a separate generating company. Niagara Mohawk has also proposed that its nuclear generation (which would include Niagara Mohawk's interest in Unit 2 of the Nine Mile Point Nuclear Station, Nine Mile 2 Plant) and electric transmission and distribution business continue to be rate-regulated on a cost-of-service basis.

Niagara Mohawk has stated that if it appears that such a proposal were unachievable, Niagara Mohawk could not rule out the possibility of a restructuring under Chapter 11 of the United States Bankruptcy Code.

The Company has intervened in the proceeding but cannot predict whether Niagara Mohawk's proposal will be effected or, if effected, what impact, if any, Niagara Mohawk's proposal would have on the gas and electric utility business in New York State, including the Company's franchise area, or what effect Niagara Mohawk's proposal and/or a restructuring under Chapter 11 of the United States Bankruptcy Code would have on the Company's interest in the Roseton Plant or the Company's interest in the Nine Mile 2 Plant.

Mergers in the Electric Industry

In response to the increasingly competitive environment, utilities across the country have been reorganizing to better position themselves financially in their market areas for the future. Thus, mergers and possible mergers have been reported in the news media throughout the past year, including the public announcement of the proposed merger between Long Island Lighting Company and Brooklyn Union Gas Company. The Company cannot predict at this time what effect these mergers or future mergers will have on the utility industry in New York State.

New York - Natural Gas

On March 28, 1996, the PSC issued an Opinion and Order adopting policies to address the restructuring of the natural gas market in New York State, designed to open local natural gas markets to competition and thereby allow residential, small business and commercial/industrial users the ability to purchase their gas supplies from sources other than the local utility. Among other provisions of the restructuring plan, smaller customers, such as residential and small business customers, may join together, or "aggregate," to purchase their gas supplies from third parties. The Company filed tariffs, complying with the PSC's directives, on April 26, 1996 which were subsequently amended October 11, 1996. Such tariffs became effective on October 14, 1996. For 1996, transported gas revenues represented a very small percentage of the Company's total gas revenues (1.3% in 1996 and .7% in 1995).

CONTINUING APPLICABILITY OF SFAS NO. 71

The Company's electric and gas rates, currently subject to approval by the PSC, are designed to recover the Company's costs of providing electric and gas services to its customers. A primary difference between a rate regulated entity and an unregulated entity is the timing of recognizing certain assets and expenses for financial reporting purposes. The Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), prescribes the method to be used to record the financial transactions of a regulated entity. The criteria for applying SFAS No. 71 include (i) rates are set by an independent third party regulator, (ii) approved rates are intended to recover the specific costs of the regulated products or services, (iii) rates are reasonable and likely to be collected. If the Company were to determine as a result of competitive changes in New York State, PSC Orders or otherwise that its business, or a portion of its business, fails to meet any of these three criteria of SFAS No. 71, it would have to eliminate from its financial statements the related transactions prescribed by the regulators that would not have been recognized if it had been a non-regulated company, which could result in an impairment of or write-off of utility assets. Currently, such transactions are included in the Company's consolidated financial statements as regulatory assets and liabilities, as described in Note 1 of the

Notes to the Company's Consolidated Financial Statements for the years ended December 31, 1996 and 1995 (Notes). An unfavorable impact on the financial results of the Company would occur if the Company determined that it would no longer apply SFAS No. 71. The Company believes, however, that it continues to meet the criteria for operating as a rate regulated entity, as prescribed by SFAS No. 71.

CAPITAL RESOURCES AND LIQUIDITY

CONSTRUCTION PROGRAM

As shown in the Consolidated Statement of Cash Flows, the cash expenditures related to the Company's construction program amounted to $49.4 million in 1996, a $100,000 increase from the $49.3 million expended in 1995. As shown in the table below, cash construction expenditures for 1997 are estimated to be $49.2 million, a decrease of $200,000 compared to 1996 expenditures. Internal sources funded 100% of the 1996 cash construction expenditures and are presently estimated to fund 100% of the forecasted cash construction expenditures for 1997.

In 1997, the Company expects to satisfy its external funding requirements, if any, through issuances of additional debt securities, the amount and type of which cannot be predicted.

Estimates of construction expenditures, internal funds available, mandatory and optional redemption of long-term securities, and working capital requirements for the five-year period 1997-2001 are set forth by year in the following table:

	1997	1998	1999	2000	2001	Total 1997-2001
			(Thousands of Dollars)			
Construction Expenditures*	$49,200	$60,300	$54,200	$56,800	$ 47,300	$267,800
Internal Funds Available	55,700	57,400	59,800	64,500	70,800	308,200
Excess of Construction Expenditures over Internal Funds	(6,500)	2,900	(5,600)	(7,700)	(23,500)	(40,400)
Mandatory Redemption of Long-term Securities:						
Long-term debt	100	100	20,100	35,100	100	55,500
Optional Redemption or Purchase of Securities:						
Long-term debt	-	16,700	-	-	70,000	86,700
Common stock	7,500	-	-	-	-	7,500
Total	7,500	16,700	-	-	70,000	94,200
Other Cash Requirements	3,000	3,000	3,000	3,000	3,000	15,000
Total Cash Requirements	$ 4,100	$22,700	$17,500	$30,400	$ 49,600	$124,300

** Excluding the equity portion of Allowance for Funds Used During Construction (AFDC), a noncash item.*

Estimates of construction expenditures are subject to continuous review and adjustment, and actual expenditures may vary from estimates. These construction expenditures include capitalized overheads, nuclear fuel and the debt portion of AFDC.

Included in the construction expenditures are expenditures which are required to comply with the Clean Air Act and related Amendments of 1990.

As shown in the table above, it is presently estimated that funds available from internal sources will finance over 100% of the Company's cash construction expenditures for the five-year period 1997-2001. During this same five-year period, total external financing requirements are projected to amount to $124.3 million, of which $55.5 million is related to the mandatory redemption of long-term securities and $94.2 million is related to the optional redemption of long-term securities and the repurchase of common stock.

CAPITAL STRUCTURE

Over the past few years, the Company has substantially increased its common equity ratio through retention of a portion of its earnings, offerings of its common stock to the public, original issuances of its common stock under its Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan (both of which have since been superseded, effective January 1, 1997, by the Company's Stock Purchase Plan which is described below under the caption "Financing Program" and in Note 5 of the Notes under the caption entitled "Capitalization - Capital Stock") and redemption of debt and preferred stock. One result of these recent increases in its common equity ratio has been a significant improvement in its interest coverage ratios (as shown under "Financial Indices" on page 28 of this Report). The Company's interest coverage ratios have also been improved by the refinancing of a portion of its debt at lower interest rates. Despite a tightening of bond rating criteria applied to the electric utility industry, the Company has maintained or improved its bond ratings since 1991. During 1996, Duff & Phelps Credit Rating Co., upgraded the Company's senior debt rating from "A-" to "A." The Company's other bond ratings, which were affirmed during 1996, are "A" by Fitch Investors Service and "A-" or equivalent by Standard & Poor's Corporation and Moody's Investors Service, Inc. The Company's long-term goal is to achieve and maintain bond ratings at the "A" level.

Set forth below is certain information with respect to the Company's capital structure at the end of 1996, 1995 and 1994:

	Year-end Capital Structure		
	1996	1995	1994
Long-term debt	40.1%	42.8%	43.0%
Short-term debt	1.7	-	.3
Preferred stock	6.2	7.5	8.[illegible]
Common equity	52.0	49.7	47.[illegible]
	100.0%	100.0%	100.0%

FINANCING PROGRAM

The Company optionally redeemed on January 1, 1996 its 7.72% Series Cumulative Preferred Stock (par value $100 per share) at a redemption price of $101.00 per share. The $13.1 million redemption price paid and associated costs were funded through internal sources.

On May 1, 1996, the Company redeemed $30 million of its First Mortgage Bonds, 8 3/4% Series due 2001 at a redemption price of 102.07% of the principal amount. The $30.6 million total cash requirements were financed with a combination of cash and short-term borrowings.

By an Order issued and effective December 4, 1996, the PSC granted the Company authorization to issue and sell through December 31, 1999, up to an additional $40 million of securities. This $40 million can be comprised of medium term notes or common stock solely or a combination of medium term notes and common stock. That Order also authorizes the Company to acquire, through December 31, 1999, not more than 2.5 million shares of i[illegible] issued and outstanding common stock, of which the Co[illegible]pany plans to repurchase approximately 250,000 shares during 1997. The Company also received approval to combine its Automatic Dividend Reinvestment and Stock Purchase Plan (DRP), its Customer Stock Purchase Plan (CSPP) and its Employee Stock Purchase Plan into a new Stock Purchase Plan, effective January 1, 1997. For more information with respect to such Order and the Company's financing program in general, see Notes 5 and 6 of the Notes.

During 1996, the Company issued 58,936 additional shares of common stock through the DRP and CSPP. Effective May 1, 1996, the Company converted such plans from original issue to open market purchase. This change was made because the Company has achieved its target common equity ratio after several years of issuing new shares through such Plans. The Company has improved its common equity ratio from 35.4% at December 31, 1987 to 52.0% currently, which level the Company feels is deemed appropriate at this time.

On December 1, 1995, the Company paid in full at maturity its 4.85% Promissory Notes. The $2.6 million principal amount was funded through internal sources.

The Company redeemed its 7.44% Series Cumulat[illegible] Preferred Stock (par value $100 per share) on October 1,

1995, at a redemption price of $101.22 per share. The $12.1 million total redemption price paid and associated costs were funded through internal sources and from the original issuance of 257,587 additional shares of common stock during 1995 through the DRP and CSPP.

SHORT-TERM DEBT

As more fully discussed in Note 4 of the Notes, the Company has a revolving credit agreement with four commercial banks for borrowing up to $50 million through October 23, 2001. In addition, the Company has several committed and uncommitted bank facilities ranging from $.5 million to $50 million from which it may obtain short-term financing. Such agreements give the Company competitive options to minimize its cost of short-term borrowing. Authorization from the PSC limits the amount the Company may have outstanding at any time under all of its short-term borrowing arrangements to $52.0 million in the aggregate.

RATE PROCEEDINGS

Electric: The Company's most recent completed electric rate case was filed November 12, 1992 and, by Order Determining Revenue Requirement and Rate Design issued and effective February 11, 1994, the PSC permitted the Company to increase its electric base rates by $5.133 million (or approximately 1.3% on an annual basis), based on a 10.6% return on common equity, and an 8.58% return on total invested capital. See the caption "Competition - Recent Developments - New York - Electric" and the subcaption "Competitive Opportunities Proceeding" thereunder, for a discussion related to the Company's October 1, 1996 filing in that proceeding.

Gas: On November 10, 1995, the Company filed a request with the PSC to increase its base rates for firm natural gas service to produce a net increase in firm gas revenues of $2.422 million based on projected operations during the rate year comprised of the period November 1, 1996 through October 31, 1997. This represented an overall requested increase in firm gas revenues of 3%.

The higher rates were requested to cover projected rate year increases in capital and operating costs. The Company's filing reflected an 11.50% return on common equity and a 9.22% return on total invested capital.

The PSC, on October 3, 1996, issued its Order and Opinion (Order) regarding the Company's request to increase its natural gas prices. The Order provides for no increase in base prices, but rather recognizes a projected revenue deficiency of $500,000 which will be eliminated through rate moderation by the use primarily of previously retained profits from interruptible sales of gas. The PSC determined that a 10% return on common equity is appropriate at this time for the Company's gas business, as compared to the existing 10.6% authorized for the Company's electric operations. The PSC's determination of the projected amount of labor expense is approximately $1.3 million less than the Company's projections. This labor determination will be an impediment to the Company's achieving the authorized 10% return level. However, the Company expects to offset this shortfall through continued productivity gains.

OTHER DEVELOPMENTS

Electric Sales to IBM: The Company's largest customer is International Business Machines Corporation (IBM), which accounted for approximately 10%, 10% and 12% of the Company's total electric revenues for the years ended December 31, 1996, 1995 and 1994, respectively. In 1996, electric sales to IBM remained stable when compared to the prior year. The latest published reports indicate that IBM reduced its employment in the Company's service territory to 9,800 employees as of December 31, 1996, as compared to the peak level of IBM employment in excess of 30,000 in 1985. This downsizing of IBM is the main contributor to the 18% decline of electric sales to IBM in 1995, and the declines in electric sales to IBM in 1994 and 1993 of 17% and 20%, respectively.

New Accounting Standards: In February 1996, the Financial Accounting Standards Board (FASB) issued an exposure draft entitled "Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets," which includes nuclear plant decommissioning. If the accounting standard proposed in such exposure draft were adopted, it could result in higher annual provisions for decommissioning to be recognized earlier in the operating life of nuclear units and an accelerated recognition of the decommissioning obligation. The FASB is deliberating this issue and the resulting final pronouncement could be different from that proposed in the exposure draft. The Company can make no prediction at this time as to the ultimate form of such proposed accounting standard, assuming it is adopted, nor can it make any prediction as to its ultimate effect(s) on the financial condition of the Company.

Other Issues: On an ongoing basis, the Company assesses environmental issues which could impact the Company and its ratepayers. Notes 1, 2 and 8 of the Notes discuss current environmental issues affecting the Company, including (i) the 1995 decommissioning study of the Nine Mile 2 Plant, (ii) the Clean Water Act and Clean Air Act Amendments of 1990, which require control of emissions from fossil-fueled electric generating units, (iii) asbestos

litigation cases, and (iv) a legal action filed in 1995 against the Company by the City of Newburgh, New York after that City discovered allegedly hazardous coal-tar material on its property, in 1994, allegedly migrating from a former manufactured gas plant facility of the Company located in Newburgh, New York.

FORWARD LOOKING STATEMENTS

This Annual Report may contain statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995 (Reform Act). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. A number of important factors affecting the Company's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. Those factors include developments in the legislative, regulatory and competitive environment, electric and gas industry restructuring and certain environmental matters.

RESULTS OF OPERATIONS

The following discussion and analysis includes an explanation of the significant changes in revenues and expenses when comparing 1996 to 1995 and 1995 to 1994. Additional information relating to changes between these years is provided in the Notes on pages 34 through 52 of this Report.

EARNINGS

Earnings per share of common stock are shown after provision for dividends on preferred stock and are computed on the basis of the average number of common shares outstanding during the year. The number of common shares, the earnings per share and the rate of return earned on average common equity are as follows:

	1996	1995	1994
Average shares outstanding (000s)	17,549	17,380	17,102
Earnings per share	$ 2.99	$ 2.74	$ 2.68
Return earned on common equity per books*	11.1%	10.5%	10.7%

* *Return on equity for regulatory rate-making purposes differs from these figures.*

Earnings per share in 1996 increased $.25 per share over 1995 resulting primarily from increased electric and gas net operating revenues caused largely by an increase in usage by residential customers, and the unseasonable hot and/or cold weather conditions experienced in 199[illegible] when compared to 1995. Heating degree days were 17[illegible] higher in 1996 than in the prior year. Also contributing to the increase in 1996 were the optional redemption of the Company's 7.44% Series Cumulative Preferred Stock in October 1995, 7.72% Series Cumulative Preferred Stock in January 1996 and 8 3/4% Series $30 million First Mortgage Bonds in May 1996.

This 1996 increase in earnings per share was partially offset by increased employee wages and associated fringe benefits and the 1995 non-recurring gain from the sale of long-term stock investments. Various other items unfavorably impacted earnings per share including increased depreciation costs associated with the Company's plant and equipment, decreased interest and dividend income and increased uncollectible accounts.

Earnings per share in 1995 increased $.06 per share over 1994 results primarily because of a decrease in maintenance costs of the Company's electric generating plants and gas distribution and transmission system in 1995. A decrease in operation and maintenance costs associated with the Nine Mile 2 Plant contributed to the total 1996 decrease in operation and maintenance costs as well. A[illegible] contributing to the increase in 1995 earnings was redu[illegible] interest expense in 1995 resulting primarily from the 1994 retirement at maturity of $50 million aggregate principal amount of its First Mortgage Bonds, 8 1/8% Series, increased earnings related to PSC incentive programs related to fuel costs and energy efficiency, and an $.08 per share gain from the sale of long-term stock investments in June and December of 1995.

Partially offsetting these 1995 increases in earnings were significant decreases in electric and gas net operating revenues attributable primarily to decreased sales from the warmer winter weather experienced in the first quarter of 1995, as compared to the same period of 1994, as well as decreased sales to a large industrial customer (IBM) in 1995. The earnings per share in 1995 were also unfavorably impacted by increased depreciation expense on the Company's plant and equipment, increased property taxes and an increase in the number of shares of common stock outstanding.

OPERATING REVENUES

Total operating revenues increased $1.8 million (.3%) in 1996 as compared to 1995 and decreased $3.5 million (.7%) in 1995, as compared to 1994.

See the table below for details of the variations:

	Increase or (Decrease) from Prior Year					
	1996			1995		
	Electric	Gas	Total	Electric	Gas	Total
	(Thousands of Dollars)					
Customer sales	$ 9,784	$(8,368)	$ 1,416	$(7,711)	$ 4,779	$(2,932)
Sales to other utilities	330	2,475	2,805	2,017	-	2,017
Fuel cost adjustment	(1,248)	(2,497)	(3,745)	3,346	(6,564)	(3,218)
Deferred revenues	677	840	1,517	1,374	21	1,395
Miscellaneous	(227)	(10)	(237)	(663)	(52)	(715)
Total	$ 9,316	$(7,560)	$ 1,756	$(1,637)	$(1,816)	$(3,453)

SALES

The Company's sales vary seasonally in response to weather. Generally electric revenues peak in the summer and gas revenues peak in the winter.

Sales of electricity within the Company's service territory increased 3% in 1996 and decreased 2% in 1995. In 1996, electric sales increased largely from an increase in usage by residential customers, and the unseasonable hot and/or cold weather experienced throughout 1996 when compared to the weather conditions of 1995. The decline in sales experienced in 1995 was primarily the result of unusually warm winter weather experienced in the first quarter of 1995 when compared to the same period in 1994. This 1995 sales decrease was also impacted by the declining usage by a large industrial customer.

Firm sales of natural gas increased 12% in 1996 due to an increase in usage by residential, commercial and industrial customers. In 1995, firm sales of natural gas decreased 5% largely because of a decrease in usage by residential customers.

Interruptible gas sales decreased 78% in 1996, due substantially to a decrease in natural gas sold for use as a boiler fuel at the Roseton Plant. The use of gas as a boiler fuel at the Roseton Plant is dependent upon its economic benefit as compared to the use of oil for generation or the purchase of electricity to meet the Company's load requirements. In 1995, interruptible gas sales increased 70%, as compared to 1994 due primarily to the increased sale of natural gas to the Roseton Plant for use as a boiler fuel. Due to sharing arrangements, as described in the caption "Sharing Arrangements," that are in place for interruptible gas sales, variations from year to year have a minimal impact on earnings.

Changes in firm sales by major customer classification are set forth as follows:

	% Increase (Decrease) from Prior Year			
	Electric		Gas	
	1996	1995	1996	1995
Residential	5	(2)	16	(10)
Commercial	1	1	12	(1)
Industrial	3	(6)	15	-

Residential and Commercial Sales: Residential electric and gas sales are primarily affected by the growth in the number of customers and the change in customer usage. In 1996, residential and commercial electric and gas sales increased primarily due to an increase in customer usage partly caused by unseasonable hot and/or cold weather experienced throughout 1996 in the Company's service territory. Heating degree days were 17% higher in 1996 than in the prior year.

In 1995, residential electric sales and residential and commercial gas sales decreased primarily from a decrease in customer usage largely due to the warmer winter weather experienced in the Company's service territory in the first quarter of 1995. Heating degree days were 22% lower in this quarter of 1995 than in the same quarter of 1994.

Industrial Electric Sales: In 1996, as compared to 1995, industrial electric sales increased 3% largely because of an increase in usage by a large industrial customer. In 1995, as compared to 1994, industrial electric sales decreased 6%, due primarily to an 18% decline in usage by a large industrial customer (IBM).

Industrial Gas Sales: Firm gas sales to industrial customers for 1996 increased 15% substantially because of increased usage by several large industrial customers. In 1995, firm gas sales to industrial customers remained stable when compared to the prior year.

NUCLEAR OPERATIONS

The Nine Mile 2 Plant is owned, as tenants in common, by the Company, Niagara Mohawk, New York State Electric & Gas Corporation, Long Island Lighting Company and Rochester Gas and Electric Corporation (Rochester). Niagara Mohawk operates the Nine Mile 2 Plant.

The Company owns a 9% interest of the Nine Mile 2 Plant, which is discussed in Note 2 of the Notes under the caption entitled "Nine Mile 2 Plant." The operations of this Plant have continued to improve. The actual capacity factor of 86.6% for 1996 exceeded the targeted capacity factor of 73% included in the Company's electric fuel adjustment clause. This resulted in a favorable impact on earnings.

The operating expenses, taxes and depreciation pertaining to the operation of the Nine Mile 2 Plant are included in the Company's financial results. For both 1996 and 1995, the actual cost of operations was less than the allowable Nine Mile 2 Plant operation and maintenance expenses provided in Supplement Nos. 4 (1995) and 5 (1996) to the 1990 Settlement Agreement, as approved by the PSC. In 1996, the underruns were entirely deferred for the future benefit of customers and in 1995 the underruns were shared between the Company's customers and shareholders.

The Company has continued to participate actively on the management, operations and accounting committees for the Nine Mile 2 Plant and expects to continue to do so in the future.

On or about October 12, 1996, Niagara Mohawk and Rochester announced plans that they would form a joint nuclear operation company to support and manage the operations of Rochester's Ginna Nuclear Plant, the Nine Mile 2 Plant and Niagara Mohawk's Unit No. 1 of the Nine Mile Point Nuclear Station. Such plans reportedly include the initial formation of a nuclear services company to provide support services.

The Company has insufficient information to make an assessment of such plans or whether it would consent to such plans to the extent that the Nine Mile 2 Plant is affected, and until such assessment can be made, the Company can take no position with respect to such plans.

The Nine Mile 2 Plant completed its fifth refueling outage November 2, 1996. The Nine Mile 2 Plant is scheduled to commence its sixth refueling outage in July 1998, with a targeted 35-day duration.

A decommissioning study for the Nine Mile 2 Plant was completed in 1995. The study's estimate of the cost to decommission the Nine Mile 2 Plant is significantly higher than previous estimates. The Company believes that decommissioning costs, if higher than currently estimated, will ultimately be recovered in rates, although no such assurance can be given. However, future developments in the utility industry, including the effects of deregulation and increasing competition could change this conclusion. The Company cannot predict the outcome of these developments. For further information on decommissioning refer to Note 2 of the Notes.

In October 1996, Niagara Mohawk, as operating cotenant for the Nine Mile 2 Plant, along with other companies that operate nuclear plants, received a letter from the Nuclear Regulatory Commission (NRC), requiring them to provide the NRC with information on the "adequacy and availability" of design basis documentation on their nuclear plants within 120 days. Such information will be used by the NRC to verify that companies are in compliance with the terms and conditions of their license(s) and NRC regulations. In addition, it will allow the NRC to determine if other inspection activities or enforcement actions should be taken on a particular company.

The Company believes that the NRC is becoming more stringent as indicated by this letter and that there may be direct cost impact on companies with nuclear plants as a result. The Company is unable to predict how a higher risk operating environment may affect its results of operations or financial condition. Niagara Mohawk plans to respond to the NRC by the February 9, 1997 due date.

SHARING ARRANGEMENTS

Pursuant to certain incentive formulas approved by the PSC, the Company shares, with its customers, certain revenues and/or cost savings exceeding defined predetermined levels. These incentive formulas, in some cases, include penalty provisions for shortfalls from the targeted levels.

Incentive formulas are in place for fuel cost variations, sales of electricity and gas to other utilities, interruptible gas sales, capacity release transactions and the Company's Energy Efficiency Program.

The net results of these incentive formulas was to increase pretax earnings by $4.6, $4.7 and $2.2 million during 1996, 1995 and 1994, respectively.

OPERATING EXPENSES

Changes from the prior year in the components of the Company's operating expenses are listed below:

	Increase or (Decrease) from Prior Year			
	1996		1995	
	Amount	%	Amount	%
	(Thousands of Dollars)			
Operating Expenses:				
Fuel and purchased electricity	$ 1,134	1	$1,279	1
Purchased natural gas	(11,703)	(19)	1,751	3
Other expenses of operation	3,683	4	(2,862)	(3)
Maintenance	(502)	(2)	(3,276)	(10)
Depreciation and amortization	1,113	3	1,087	3
Taxes, other than income tax	(564)	(1)	(190)	-
Federal income tax	3,660	13	997	4
Total	$(3,179)	(1)	$(1,214)	-

The most significant elements of operating expenses are fuel and purchased electricity in the Company's electric department and purchased natural gas in the Company's gas department. Approximately 27% in 1996 [illegible]28% in 1995 of every revenue dollar billed in the [illegible]mpany's electric department was expended for the combined cost of fuel used in electric generation and purchased electricity. The corresponding figures in the Company's gas department for the cost of purchased gas were 53% and 61%, respectively.

In an effort to keep the cost of electricity at the lowest reasonable level, the Company purchases energy from sources such as other member companies of the New York Power Pool, Canadian hydro sources and energy marketers, whenever such energy can be purchased at a unit cost lower than the incremental cost of generating the energy in the Company's plants.

In 1996, purchased natural gas decreased $11.7 million (19%) primarily because of lower interruptible gas sales for usage as a boiler fuel at the Roseton Plant. In 1995, however, purchased natural gas increased $1.8 million (3%) largely because of higher interruptible gas sales including gas used as a boiler fuel at the Roseton Plant.

Other expenses of operation increased $3.7 million (4%) in 1996 primarily due to increased employee wages and associated fringe benefits and increased uncollectible accounts. In 1995, other expenses of operation decreased [illegible] million (3%) primarily because of decreased costs of [illegible]Company's electric distribution and transmission system.

Maintenance expenses for 1996 remained stable compared to 1995. Maintenance expenses decreased $3.3 million (10%) in 1995 as compared to 1994 due largely to a $3.5 million decrease in costs associated with the Company's electric generating plants and a $1.6 million decrease in leak repair costs on the Company's gas distribution and transmission system. These decreases were partially offset by a $2.0 million increase in the Company's electric distribution and transmission system costs largely resulting from increases to storm costs and tree trimming expenses in 1995.

See Note 3 of the Notes for an additional analysis and reconciliation of the federal income tax.

OTHER INCOME AND INTEREST CHARGES

Other income (excluding AFDC) decreased $2.8 million (30%) in 1996 and increased $1.7 million (23%) in 1995. The 1996 decrease was largely due to the non-recurring gain of $2.1 million realized in 1995 from the sale of long-term stock investments and the recording of one-time charges associated with the optional redemption of $30 million 8 3/4% Series of First Mortgage Bonds in May 1996. The increase noted in 1995 was substantially due to the gain from the sale of long-term stock investments in June and December 1995.

Total interest charges (excluding AFDC) decreased $1.7 million (6%) in 1996 and $2.2 million (7%) in 1995. The following table sets forth some of the pertinent data on the Company's outstanding debt:

	1996	1995	1994
	(Thousands of Dollars)		
Long-term debt:			
Debt retired	$ 30,000	$ 2,562	$ 50,000
Outstanding at year-end*:			
Amount (including current portion)	364,026	391,715	393,853
Effective rate	6.70%	7.00%	6.71%
Short-term debt:			
Average daily amount outstanding	$ 5,477	$ 103	$ 16
Weighted average interest rate	5.59%	6.16%	6.69%

**Including debt of subsidiaries of $7.6 million in 1996, $5.3 million in 1995 and $4.8 million in 1994.*

See Notes 4 and 6 of the Notes for additional information on short-term and long-term debt of the Company.

FINANCIAL INDICES

Selected financial indices for the last five years are set forth in the following table:

	1996	1995	1994	1993	1
Pretax coverage of total interest charges:					
Including AFDC	**4.08x**	3.68x	3.38x	3.29x	3.07x
Excluding AFDC	**3.83x**	3.43x	3.15x	3.15x	2.95x
Funds from Operations	**5.29x**	4.69x	4.24x	4.27x	4.04x
Pretax coverage of total interest charges and preferred stock dividends	**3.47x**	2.97x	2.74x	2.65x	2.49x
Percent of construction expenditures financed from internal funds	**100%**	100%	100%	100%	100%
AFDC and Mirror CWIP* as a percentage of income available for common stock	**13%**	16%	16%	11%	10%
Effective tax rate	**36%**	35%	35%	35%	34%

* Refer to Note 1 of the Notes entitled "Summary of Significant Accounting Policies" under subcaptions "Rates, Revenues and Regulatory Matters" - "Deferred Finance Charges - Nine Mile 2 Plant" for a definition of Mirror CWIP.

COMMON STOCK DIVIDENDS AND PRICE RANGES

The Company and its principal predecessors have paid dividends on its common stock in each year commencing 1903, and the common stock of the Company has been listed on the New York Stock Exchange since 1945. The price ranges and the dividends paid for each quarterly period during the Company's last two fiscal years are as follows:

	1996			1995		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$31 1/2	$28 3/4	$.525	$27 5/8	$26	$.52
2nd Quarter	31 1/4	28 7/8	.525	27 1/2	25 1/2	.52
3rd Quarter	31 1/4	29 1/2	.53	30 1/2	26 1/4	.525
4th Quarter	31 1/2	29	.53	31 7/8	29 7/8	.525

On June 28, 1996, the Company increased its quarterly dividend rate to $.53 per share from $.525 in 1995. On June 23, 1995, the Company increased its quarterly dividend rate to $.525 per share from $.52 per share. The Company presently intends to increase future common stock dividends by a modest amount if and to the extent supported by sustained earnings growth, while at the same time gradually reducing the Company's payout ratio; however, any determination of future dividend declarations, and the amounts and dates of such dividends, will depend on the circumstances at the time of consideration of such declaration.

The number of registered holders of common stock as of December 31, 1996 was 24,191. Of these, 23,545 were accounts in the names of individuals with total holdings of 6,020,776 shares, or an average of 256 shares per account. The 646 other accounts, in the names of institutional or other non-individual holders, for the most part, hold shares of common stock for the benefit of individuals.

Report of Independent Accountants

Price Waterhouse LLP

To the Board of Directors and Shareholders of Central Hudson Gas & Electric Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of Central Hudson Gas & Electric Corporation and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

New York, New York
January 24, 1997

Statement of Management's Responsibility

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements of Central Hudson Gas & Electric Corporation and its subsidiaries (collectively, the Company) as well as all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, in some cases, reflect amounts based on the best estimates and judgements of the Company's Management, giving due consideration to materiality.

The Company maintains adequate systems of internal control to provide reasonable assurance, that, among other things, transactions are executed in accordance with Management's authorization, that the consolidated financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the Company are properly safeguarded. The systems of internal control are documented, evaluated and tested by the Company's internal auditors on a continuing basis. Due to the inherent limitations of the effectiveness of internal controls, no internal control system can provide absolute assurance that errors will not occur. Management believes that the Company has maintained an effective system of internal control over the preparation of its financial information including the consolidated financial statements of the Company as of December 31, 1996.

Independent accountants were engaged to audit the consolidated financial statements of the Company and issue their report thereon. The Report of Independent Accountants, which is presented above, does not limit the responsibility of Management for information contained in the consolidated financial statements and elsewhere in the Annual Report.

The Company's Board of Directors maintains a Committee on Audit which is composed of Directors who are not employees of the Company. The Committee on Audit meets with Management, its Internal Auditing Manager, and its independent accountants several times a year to discuss internal controls and accounting matters, the Company's consolidated financial statements, the scope and results of the audits performed by the independent accountants and the Company's Internal Auditing Department. The independent accountants and the Company's Internal Auditing Manager have direct access to the Committee on Audit.

John E. Mack III

JOHN E. MACK, III
Chairman of the Board and
Chief Executive Officer

Donna S. Doyle

DONNA S. DOYLE
Controller
January 24, 1997

Consolidated Balance Sheet

At December 31, (In Thousands)	1996	1995
ASSETS		
Utility Plant		
Electric	$ 1,171,798	$ 1,149,233
Gas	145,375	140,341
Common	87,591	83,220
Nuclear fuel	36,913	32,541
	1,441,677	1,405,335
Less: Accumulated depreciation	520,999	490,576
Nuclear fuel amortization	29,748	26,435
	890,930	888,324
Construction work in progress	48,699	48,770
Net Utility Plant	939,629	937,094
Investments and Other Assets		
Prefunded pension costs	10,672	922
Other	12,419	10,410
Total Investments and Other Assets	23,091	11,332
Current Assets		
Cash and cash equivalents	4,235	15,478
Accounts receivable from customers - net of allowance for doubtful accounts; $3.2 million in 1996 and $2.5 million in 1995	48,080	44,536
Accrued unbilled utility revenues	16,042	15,806
Other receivables	2,896	4,674
Materials and supplies, at average cost:		
Fuel	14,935	13,319
Construction and operating	13,160	14,271
Special deposits and prepayments	13,440	12,659
Total Current Assets	112,788	120,743
Deferred Charges		
Regulatory assets (Note 1)	151,426	159,907
Unamortized debt expense	5,393	6,080
Other	16,779	14,936
Total Deferred Charges	173,598	180,923
TOTAL ASSETS	$ 1,249,106	$ 1,250,092

The Notes to Consolidated Financial Statements are an integral part hereof.

At December 31, (In Thousands)	1996	1995
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stock Equity		
Common stock, $5 par value (Note 5)	$ 87,775	$ 87,480
Paid-in capital (Note 5)	284,465	282,942
Retained earnings	105,821	90,475
Capital stock expense	(6,352)	(6,658)
Total Common Stock Equity	471,709	454,239
Cumulative Preferred Stock (Note 5)		
Not subject to mandatory redemption	21,030	21,030
Subject to mandatory redemption	35,000	35,000
Total Cumulative Preferred Stock	56,030	56,030
Long-term Debt (Note 6)	362,040	389,245
Total Capitalization	889,779	899,514
Current Liabilities		
Current redemption of preferred stock	-	13,000
Current maturities of long-term debt	1,362	1,577
Notes payable	15,600	-
Accounts payable	26,137	24,433
Dividends payable	10,112	10,244
Accrued taxes and interest	5,347	7,824
Accrued vacation	4,251	4,157
Customer deposits	4,019	4,021
Other	6,676	6,166
Total Current Liabilities	73,504	71,422
Deferred Credits and Other Liabilities		
Regulatory liabilities (Note 1)	74,587	74,132
Operating reserves	4,755	6,024
Other	9,155	9,659
Total Deferred Credits and Other Liabilities	88,497	89,815
Accumulated Deferred Income Tax (Note 3)	197,326	189,341
Commitments and Contingencies (Notes 2 and 8)		
TOTAL CAPITALIZATION AND LIABILITIES	$1,249,106	$1,250,092

The Notes to Consolidated Financial Statements are an integral part hereof.

Consolidated Statement of Income

Year Ended December 31, (In Thousands)	1996	1995	1994
Operating Revenues			
Electric	$ 418,761	$ 409,445	$ 411,0[illegible]
Gas	95,210	102,770	104,[illegible]
Total Operating Revenues	513,971	512,215	515,[illegible]
Operating Expenses			
Operation:			
Fuel used in electric generation	58,874	60,940	67,899
Purchased electricity	55,523	52,323	44,085
Purchased natural gas	50,636	62,339	60,588
Other expenses of operation	102,746	99,063	101,925
Maintenance	28,938	29,440	32,716
Depreciation and amortization (Note 1)	42,580	41,467	40,380
Taxes, other than income tax	66,145	66,709	66,899
Federal income tax (Note 3)	32,700	29,040	28,043
Total Operating Expenses	438,142	441,321	442,535
Operating Income	75,829	70,894	73,133
Other Income			
Allowance for equity funds used during construction (Note 1)	466	986	866
Federal income tax (Note 3)	1,632	353	1,237
Other - net	4,815	8,886	6,296
Total Other Income	6,913	10,225	8,399
Income before Interest Charges	82,742	81,119	81,532
Interest Charges			
Interest on long-term debt	23,617	25,925	27,541
Other interest	2,626	1,917	1,784
Allowance for borrowed funds used during construction (Note 1)	(523)	(514)	([illegible]
Amortization of expense on debt	940	1,069	1,[illegible]
Total Interest Charges	26,660	28,397	30,603
Net Income	56,082	52,722	50,929
Premium on Preferred Stock Redemptions - Net	378	169	-
Dividends Declared on Cumulative Preferred Stock	3,231	4,903	5,127
Income Available for Common Stock	$ 52,473	$ 47,650	$ 45,802
Common Stock:			
Average shares outstanding (000s)	17,549	17,380	17,102
Earnings per share on average shares outstanding	$2.99	$2.74	$2.68

Consolidated Statement of Retained Earnings

Year Ended December 31, (In Thousands)	1996	1995	1994
Balance at beginning of year	$ 90,475	$ 79,284	$ 69,023
Net Income	56,082	52,722	50,929
Premium on Preferred Stock Redemption - Net	378	169	-
Dividends declared:			
On cumulative preferred stock	3,231	4,903	5,127
On common stock ($2.115 per share 1996; $2.095 per share 1995; $2.075 per share 1994)	37,127	36,459	35,541
Total Dividends Declared	40,358	41,362	40,668
Balance at end of year	$ 105,821	$ 90,475	$ 79,28[illegible]

The Notes to Consolidated Financial Statements are an integral part hereof.

Consolidated Statement of Cash Flows

Year Ended December 31, (In Thousands)	1996	1995	1994
Operating Activities			
Net Income	$ 56,082	$ 52,722	$ 50,929
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel amortization	47,073	45,388	44,616
Deferred income taxes	17,901	14,146	12,970
Allowance for equity funds used during construction	(466)	(986)	(866)
Nine Mile 2 Plant deferred finance charges, net	(4,855)	(4,855)	(4,855)
Provisions for uncollectibles	4,336	3,220	3,306
Accrued pension costs	(6,757)	(10,627)	(2,028)
Gain on sale of long-term investment	-	(2,104)	-
Deferred gas costs	(4,861)	5,302	3,256
Deferred gas refunds	(1,556)	(1,784)	2,616
Other - net	3,986	11,466	4,376
Changes in current assets and liabilities, net:			
Accounts receivable and unbilled utility revenues	(6,338)	(3,300)	(2,604)
Materials and supplies	(505)	5,799	2,028
Special deposits and prepayments	(781)	(567)	(724)
Accounts payable	1,704	(5,008)	887
Accrued taxes and interest	(2,477)	995	219
Other current liabilities	602	944	1,396
Net cash provided by operating activities	103,088	110,751	115,522
Investing Activities			
Additions to plant	(49,860)	(50,269)	(58,045)
Allowance for equity funds used during construction	466	986	866
Net additions to plant	(49,394)	(49,283)	(57,179)
Roseton Plant restoration costs related to fire damage	-	-	(853)
Insurance recoveries related to Roseton Plant restoration	-	-	4,371
Nine Mile 2 Plant decommissioning trust fund	(1,734)	(1,895)	(895)
Proceeds from sale of long-term investments	-	2,879	-
Other - net	200	(1,161)	(2,648)
Net cash used in investing activities	(50,928)	(49,460)	(57,204)
Financing Activities			
Proceeds from issuance of:			
Long-term debt	3,090	1,000	230
Common stock	1,817	7,064	7,783
Net borrowings (repayments) of short-term debt	15,600	(3,000)	3,000
Retirement and redemption of long-term debt	(30,779)	(3,139)	(50,273)
Retirement and redemption of cumulative preferred stock	(13,000)	(12,000)	-
Premium on preferred stock redemption	(378)	(146)	-
Dividends paid on cumulative preferred and common stock	(40,489)	(41,364)	(40,328)
Issuance and redemption costs	736	(20)	(110)
Net cash used in financing activities	(63,403)	(51,605)	(79,698)
Net Change in Cash and Cash Equivalents	(11,243)	9,686	(21,380)
Cash and Cash Equivalents at Beginning of Year	15,478	5,792	27,172
Cash and Cash Equivalents at End of Year	$ 4,235	$ 15,478	$ 5,792
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ 25,184	$ 26,738	$ 28,681
Federal income taxes paid	15,875	14,100	12,100

The Notes to Consolidated Financial Statements are an integral part hereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The Company is subject to regulation by the Public Service Commission of the State of New York (PSC) and the Federal Energy Regulatory Commission (FERC) with respect to its rates for service and the maintenance of its accounting records. The Company's accounting policies conform to generally accepted accounting principles as applied to regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the regulatory authorities having jurisdiction.

Certain amounts from prior years have been reclassified in the consolidated financial statements to conform with the 1996 presentation. Preparation of the financial statements includes the use of estimates and assumptions made by management that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated.

The Company's subsidiaries are each wholly owned and are comprised of landholding, cogeneration or energy management companies. The net income of the Company's subsidiaries is reflected in the Consolidated Statement of Income as other nonoperating income.

On June 30, 1996, Central Hudson Cogeneration, Inc. merged into Central Hudson Enterprises Corporation, with the latter being the surviving corporation.

Utility Plant: The costs of additions to utility plant and replacements of retired units of property are capitalized at original cost. The Company's share of the costs of the Nine Mile 2 Plant are capitalized at original cost, less the disallowed investment of $169.3 million which was recorded in 1987. Costs include labor, materials and supplies, indirect charges for such items as transportation, certain taxes, pension and other employee benefits and an allowance for the cost of funds used during construction (AFDC). Replacement of minor items of property is included in maintenance expenses.

The original cost of property, together with removal cost, less salvage, is charged to accumulated depreciation at such time as the property is retired and removed from service.

Jointly Owned Facilities: The Company has a 9%, or 103 MW, undivided interest in the 1,143 MW Nine Mile 2 Plant (see Note 2) and a 35%, or 420 MW, undivided interest in the 1,200 MW Roseton Steam Electric Generating Plant (Roseton Plant) (see Note 8 caption "Roseton Plant").

The Company's share of the respective investments in the Nine Mile 2 Plant and the Roseton Plant, as included in its Consolidated Balance Sheet at December 31, 1996 and 1995, were:

	1996	1995
	(Thousands of Dollars)	
Nine Mile 2 Plant		
Plant in service	$314,270	$315,423
Construction work in progress	1,894	594
Accumulated depreciation	(61,708)	(55,319)
Roseton Plant		
Plant in service	$135,026	$133,741
Construction work in progress	745	1,872
Accumulated depreciation	(74,963)	(71,880)

Allowance For Funds Used During Construction: The Company includes in plant costs AFDC approximately equivalent to the cost of funds used to finance construction expenditures. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component, a noncash item) is reported as other income. The AFDC rate was 7.5% in 1996 and 8.5% in 1995 and 1994.

Depreciation and Amortization: For financial statement purposes, the Company's depreciation provisions are computed on the straight-line method using

rates based on studies of the estimated useful lives and estimated net salvage of properties, with the exception of the Nine Mile 2 Plant which is depreciated on a remaining life amortization method. The year 2016, which is the year in which the Nine Mile 2 Plant operating license expires, is used as the end date in the development of the remaining life amortization. The Company performs depreciation studies on a continuing basis and, upon approval by the PSC, periodically adjusts the rates of its various classes of depreciable property. The most recent study was performed in 1993. The provision for depreciation of transportation equipment is charged indirectly to various asset and expense accounts.

The Company's composite rates for depreciation were 3.13% in 1996, 3.14% in 1995 and 3.15% in 1994 of the original cost of average depreciable property. The ratio of the amount of accumulated depreciation to the cost of depreciable property at December 31 was 36.5% in 1996, 35.3% in 1995 and 34.5% in 1994.

For federal income tax purposes, the Company uses an accelerated method of depreciation and generally uses the shortest life permitted for each class of assets.

Amortization of Nuclear Fuel: The cost of the Nine Mile 2 Plant nuclear fuel assemblies and components is amortized to operating expense based on the quantity of heat produced for the generation of electric energy. Niagara Mohawk, on behalf of the Nine Mile 2 Plant cotenants, has entered into an agreement with the U.S. Department of Energy (DOE) for the ultimate disposal and storage of spent nuclear fuel. The cotenants are assessed a fee for such disposal based upon the kilowatt-hours generated by the Nine Mile 2 Plant. These costs are charged to operating expense and recovered from customers through base rates or through the electric fuel cost adjustment clause described below. The Company cannot now determine whether such arrangements with the DOE will ultimately provide for the satisfactory permanent disposal of such waste products.

Cash and Cash Equivalents: For purposes of the Consolidated Statement of Cash Flows, the Company considers temporary cash investments with an original maturity of three months or less to be cash equivalents.

Federal Income Tax: The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Federal income taxes are allocated to operating expenses and other income and deductions in the Consolidated Statement of Income. Federal income taxes are deferred under the liability method in accordance with Financial Accounting Standard No. 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all differences between financial statement and tax basis of assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded to recognize that income taxes will be recoverable or refundable through future revenues.

Rates, Revenues and Regulatory Matters: Electric and gas retail rates, including fuel and gas cost adjustment clauses, applicable to intrastate service (other than contractually established rates for service to municipalities and governmental bodies) are regulated by the PSC. Transmission rates, facilities charges and rates for electricity sold for resale in interstate commerce are regulated by the FERC.

Revenues are recognized on the basis of cycle billings rendered monthly or bimonthly. Estimated revenues are accrued for those customers billed bimonthly whose meters are not read in the current month.

The Company's tariff for retail electric service includes a fuel cost adjustment clause pursuant to which electric rates are adjusted to reflect changes in the average cost of fuels used for electric generation and in certain purchased power costs, from the average of such costs included in base rates. The Company's tariff for gas service contains a comparable clause to adjust gas rates for changes in the price of purchased natural gas and certain costs of manufactured gas.

Reference is made to the caption "Rate Proceedings" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for details of the Company's 1996 Rate Order for its gas rate case.

Regulatory Assets and Liabilities: The Company's accounting policies reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards 71, "Accounting

for the Effects of Certain Types of Regulation". (SFAS No. 71). Accordingly, certain utility expenses and credits normally reflected currently in income are deferred on the balance sheet as regulatory assets and liabilities and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers in utility revenues as permitted by the regulators. If the Company were no longer subject to the provision of SFAS 71, the Company would be required to write-off related regulatory assets and liabilities. Based on current regulation, the Company believes that its use of regulatory accounting continues to be appropriate.

The following table sets forth the Company's regulatory assets and liabilities:

At December 31,	1996	1995
Regulatory Assets (Debits):	(In thousands)	
Deferred finance charges -		
Nine Mile 2 Plant	$ 69,615	$ 70,760
Income taxes recoverable		
through future rates	55,791	65,723
Deferred energy efficiency costs	8,894	11,046
Other	17,126	12,378
Total Regulatory Assets	$151,426	$159,907
Regulatory Liabilities (Credits):		
Deferred finance charges -		
Nine Mile 2 Plant	$ 22,431	$ 28,431
Income taxes refundable	29,077	29,093
Deferred Nine Mile 2 Plant costs	6,322	3,094
Deferred OPEB costs over collection	4,778	3,600
Deferred unbilled gas revenues	4,357	4,030
Other	7,622	5,884
Total Regulatory Liabilities	$ 74,587	$ 74,132
Net Regulatory Assets	$ 76,839	$ 85,775

Some of the significant regulatory assets and liabilities include:

Deferred Finance Charges - Nine Mile 2 Plant: During the construction of the Nine Mile 2 Plant, the PSC authorized the inclusion in rate base of increasing amounts of the Company's investment in that Plant. The Company did not accrue AFDC on any of the Nine Mile 2 Plant construction work in progress (CWIP) which was included in rate base and for which a cash return was being allowed; however, the PSC ordered, effective January 1, 1983, that amounts be accumulated in deferred debit and credit accounts equal to the amount of AFDC which was not being accrued on the CWIP included in rate base (Mirror CWIP). The balance in the deferred credit account is available to reduce future revenue requirements by amortizing portions of the deferred credit to other income or by the elimination through writing off other deferred balances as directed by the PSC. The Company expects such application of the deferred credit will occur over a period substantially shorter than the life of the Nine Mile 2 Plant. When amounts of such deferred credit are applied in order to reduce revenue requirements, amortization is started for a corresponding amount of the deferred debit, which amortization continues on a level basis over the remaining life of the Nine Mile 2 Plant resulting in recovery of such corresponding amount through rates. Mirror CWIP is expected to be exhausted by the end of the useful life of the Nine Mile 2 Plant either through the amortization or write-off procedures described above or through the write-off of the remaining debit and credit as directed by the PSC. The net effect of this procedure is that at the end of the amortization period for the deferred credit, the accounting and rate-making treatment will be the same as if the Nine Mile 2 Plant CWIP had not been included in rate base during the construction period.

Pursuant to a PSC Order issued and effective February 11, 1994 in an electric rate proceeding, the Company was authorized to amortize $6.0 million annually of the deferred credit beginning in December 1993.

The $6.0 million amortization of the deferred credit will be continued unless changed by a future PSC rate order or until it is exhausted. The current level of the deferred debit amortization of $1.145 million is based on the level of deferred credits that have been utilized through the most recent rate year, which has ended. Credit amounts utilized subsequently are included in the deferred debit amortization level at the time of the next PSC rate order for the new rate year based on the then remaining life of the Nine Mile 2 Plant.

Income Taxes Recoverable/Refundable: The adoption of SFAS 109, "Accounting for Income Taxes," in 1993 increased the Company's net deferred tax obligation. As it is probable that the increase will be recovered from customers, the Com-

pany established a net regulatory asset.

Deferred Energy Efficiency Costs: The PSC has required utilities to adopt comprehensive long-range planning which includes demand side management and energy conservation (Energy Efficiency Program). The Company's 1996 Energy Efficiency Program was approved by the PSC. The Energy Efficiency Program costs are deferred and amortized over either five or ten years, as directed by the PSC.

In addition to the deferral of Energy Efficiency Program costs, the Company recovers lost net revenues that result from the Program. Incentive earnings related to the achievement of energy efficiency goals are recovered through the electric fuel cost adjustment clause as discussed below. The Company's 1997 Demand Side Management (DSM) Plan, filed with the PSC on November 15, 1996, proposes the elimination of the incentive mechanism and no recognition, by the Company, of incremental lost net revenues resulting from either the implementation of additional DSM measures or modifications to existing programs. The Company cannot predict the outcome of this filing.

Competition: The public utility industry is facing increasing competition and deregulation initiatives across the country and in New York State. The PSC has a proceeding in process which may affect the Company and other investor-owned utilities operating in New York State which is called the "Competitive Opportunities Proceeding." The Company's filing on October 1, 1996, in conjunction with the PSC's Competitive Opportunities Proceeding, proposed no immediate wholesale changes in the structure of its business. In the current settlement process associated with this filing, the Company is looking to establish an orderly transition over an extended period of time, from a regulated, vertically integrated, franchised utility, which has the obligation to serve, to a restructured entity which ultimately provides customers with competitive choices for electric energy and related services. It also seeks to establish confirmation of its right for an opportunity to recover all prudently incurred costs including those costs which may not be recoverable in competitive markets. The Company is hopeful that an agreement will be reached with the PSC and other parties in the Competitive Opportunities Proceeding that will continue to provide it with every reasonable opportunity to recover not only its costs of operation and plant investments but also its net regulatory assets.

Accordingly, it is management's estimation that the financial statements and other financial information contained herein have been prepared based on its best judgement as to the continued applicability of SFAS No. 71 and that no significant events have taken place that would alter that judgement regarding regulatory assurances of costs recovery. If, however, the Company's business or a portion of its business no longer qualified under SFAS No. 71, the Company would be required to write-off to income its regulatory assets and regulatory liabilities related to the non-regulated portion of the Company (unless assumed by the regulated portion of the Company), which could have a material adverse effect on the financial condition of the Company.

New Accounting Standards:

Impairment: In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), which is applicable to the Company starting in 1996. SFAS No. 121 requires companies, including utilities, to assess the need to recognize a loss whenever events or circumstances occur which indicate that the carrying amount of an asset may not be fully recoverable. SFAS No. 121 also amends SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to require the write-off of a regulatory asset if it is no longer probable that future revenues will recover the cost of the asset. The adoption of SFAS No. 121 did not have a material impact on the financial position or results of operations of the Company in 1996 based on the current regulatory treatment of its long-lived and regulatory assets. However, future developments in the utility industry, including the effects of deregulation and increasing competition, could change this conclusion.

Plant Decommissioning: The FASB is considering when a liability for plant decommissioning or other long-lived asset retirement should be recognized, how any such liability should be measured, and whether a corresponding asset is created. In an exposure draft SFAS, issued February 1996, FASB

has tentatively concluded that a liability should be recognized for legal or unavoidable constructive obligations for closure and removal of facilities, such as the Nine Mile 2 Plant, as the obligation is incurred. The liability recognized for those closure and removal obligations shall reflect the present value of estimated future cash outflows currently expected to be required to satisfy those obligations. Initial recognition of a liability for closure and removal obligations increases the cost of the related asset because incurrence of the obligation is integral to or a prerequisite for operating the asset. Further, any securities or other assets dedicated to future settlement of closure and removal obligations, cannot be offset to those liabilities for financial reporting purposes. The FASB is deliberating this issue and the resulting final pronouncement could be different from that projected in the exposure draft. The Company does not believe that such changes, if required, would have an adverse effect on results of operations due to its current belief that decommissioning costs will continue to be recovered in rates. However, future developments in the utility industry, including the effects of deregulation and increasing competition, could change this conclusion.

NOTE 2 - NINE MILE 2 PLANT

General: The Nine Mile 2 Plant is located in Oswego County, New York, and is operated by Niagara Mohawk. The Nine Mile 2 Plant is owned as tenants in common by the Company (9% interest), Niagara Mohawk (41% interest), New York State Electric & Gas Corporation (18% interest), Long Island Lighting Company (18% interest) and Rochester Gas and Electric Corporation (14% interest). The output of the Nine Mile 2 Plant, which has a rated net capability of 1,143 MW, is shared and the operating expenses of the Plant are allocated to the cotenants in the same proportions as the cotenants' respective ownership interests. The Company's share of direct operating expense for the Nine Mile 2 Plant is included in the appropriate expense classifications in the accompanying Consolidated Statement of Income.

Under the Operating Agreement entered into by the cotenants, Niagara Mohawk acts as operator of the Nine Mile 2 Plant, and all five cotenants share certain policy, budget and managerial oversight functions. The Operating Agreement remains in effect subject to termination on six months' notice.

Radioactive Waste: Niagara Mohawk has contract with the DOE for disposal of high-level radioactive waste (spent fuel) from the Nine Mile 2 Plant. The DOE has forecasted the start of operations of its high-level radioactive waste repository to be no sooner than 2010. The Company has been advised by Niagara Mohawk that the Nine Mile 2 Plant Spent Fuel Storage Pool has a capacity for spent fuel that is adequate until 2012. If DOE schedule slippage should occur, facilities that extend the on-site storage capability for spent fuel at the Nine Mile 2 Plant beyond 2012 would need to be acquired.

Nuclear Plant Decommissioning Costs: The Company's 9% share of costs to decommission the Nine Mile 2 Plant is estimated to be approximately $209.6 million ($75.1 million in 1996 dollars) and assumes that decommissioning will begin in the year 2028. This estimate is based upon a site-specific study completed in December 1995.

In order to assist the Company in meeting this obligation, the Company has increased its annual funding to a qualified external fund from $787,000 to $868,000. This change became retroactively effective for 1995. The total annual amount allowed in rates is $999,000, but the maximum annual tax deduction allowed is $868,000. Currently, the difference between the rate allowance ($999,000) and the amount contributed to the external qualified fund ($868,000) is recorded as an internal reserve ($131,000), and the funds are held by the Company.

The qualified external decommissioning trust fund at December 31, 1996 and 1995 amounted to $8.1 million and $6.4 million, respectively, including net reinvested earnings to date of $2.3 million. The qualified external decommissioning trust fund is reflected in the Company's Consolidated Balance Sheet in "Investments and Other Assets." At December 31, 1996, the external decommissioning trust fund investments carrying value approximated fair market value. The amount of accumulated decommissioning costs recovered through rates and the net earnings of the external decommissioning trust fund are reflected in accumulated depreciation in the Consolidated Bal-

ance Sheet and amount to $9.6 million and $7.9 million at December 31, 1996 and 1995, respectively.

Reference is made to the caption "New Accounting Standards - Plant Decommissioning" in Note 1 above for details of the proposed changes in accounting for nuclear decommissioning costs.

The Company believes that if decommissioning costs are higher than currently estimated, such higher costs would be recovered in rates. However, future developments in the utility industry, including the effects of deregulation and increasing competition, could change this conclusion.

NOTE 3 - FEDERAL INCOME TAX

Components of Federal Income Tax: The following is a summary of the components of federal income tax as reported in the Consolidated Statement of Income:

	1996	1995	1994
	(Thousands of Dollars)		
Charged to operating expense:			
Federal income tax	$18,936	$19,245	$18,190
Deferred income tax	13,764	9,795	9,853
Income tax charged to operating expense	32,700	29,040	28,043
Charged (credited) to other income and deductions:			
Federal income tax	(5,716)	(4,704)	(4,354)
Deferred income tax	4,084	4,351	3,117
Income tax charged (credited) to other income and deductions	(1,632)	(353)	(1,237)
Total federal income tax	$31,068	$28,687	$26,806

Reconciliation: The following is a reconciliation between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in the Consolidated Statement of Income:

	1996	1995	1994
	(Thousands of Dollars)		
Net income	$56,082	$52,722	$50,929
Federal income tax	13,220	14,541	13,836
Deferred income tax	17,848	14,146	12,970
Income before taxes	$87,150	$81,409	$77,735

	1996	1995	1994
	(Thousands of Dollars)		
Computed tax @ 35% statutory rate	$30,503	$28,493	$27,207
Increase (decrease) to computed tax due to:			
Tax depreciation	(10,499)	(10,096)	(9,597)
Deferred finance charges - Nine Mile 2 Plant	(1,699)	(1,701)	(1,700)
Deferred gas costs	(1,703)	2,286	1,149
Deferred OPEB expense	167	(223)	713
Pension expense	(2,424)	(1,738)	(1,471)
Alternative minimum tax	(2,262)	(2,958)	(1,544)
Other	1,137	478	(921)
Federal income tax	13,220	14,541	13,836
Deferred income tax	17,848	14,146	12,970
Total federal income tax	$31,068	$28,687	$26,806
Effective tax rate	35.6%	35.2%	34.5%

The following is a summary of the components of accumulated deferred income taxes at December 31, 1996 and 1995, as reported in the Consolidated Balance Sheet:

	1996	1995
	(Thousands of Dollars)	
Accumulated Deferred Income Tax Assets:		
Future tax benefits on investment tax credit basis difference	$ 15,318	$ 16,073
Alternative minimum tax	8,398	10,530
Tax depreciation - Nine Mile 2 Plant disallowed investment	-	3,077
Unbilled revenues	5,654	5,434
Other	26,891	22,444
Accumulated Deferred Income Tax Assets	$ 56,261	$ 57,558
Accumulated Deferred Income Tax Liabilities:		
Tax depreciation	$176,522	$172,033
Accumulated deferred investment tax credit	28,448	29,850
Future revenues - recovery of plant basis differences	20,321	22,971
Other	28,296	22,045
Accumulated Deferred Income Tax Liabilities	$253,587	$246,899
Net Accumulated Deferred Income Tax Liability	$197,326	$189,341

NOTE 4 - SHORT-TERM BORROWING ARRANGEMENTS

The Company has in effect a revolving credit agreement with four commercial banks which allows it to borrow up to $50.0 million through October 23, 2001 (Agreement). The Agreement gives the Company the option of borrowing at either the higher of the prime rate or the sum of the federal funds rate plus 1/2%, or three other money market rates if such rates are lower. Compensating balances are not required under the Agreement. In addition, the Company continues to maintain confirmed lines of credit totaling $1.5 million with two regional banks. There were no outstanding loans under the Agreement or the lines of credit at December 31, 1996 or 1995. In order to diversify its sources of short-term financing, the Company has entered into short-term credit facilities agreements with several commercial banks. At December 31, 1996, the Company had outstanding short-term debt of $15.6 million under such facilities with a weighted average interest rate of 5.94%. There was no outstanding short-term debt at December 31, 1995 under such facilities.

Authorization from the PSC limits the amount the Company may have outstanding, at any time, under all of its short-term borrowing arrangements to $52.0 million in the aggregate.

NOTE 5 - CAPITALIZATION - CAPITAL STOCK

Common Stock, $5 par value; 30,000,000 shares authorized:

	Common Stock		Paid
	Shares Outstanding	Amount ($000)	Capital ($000)
January 1, 1994	16,953,147	$84,766	$270,848
Issued under dividend reinvestment plan	227,772	1,139	5,104
Issued under customer stock purchase plan	57,545	287	1,253
December 31, 1994	17,238,464	86,192	277,205
Issued under dividend reinvestment plan	218,610	1,093	4,897
Issued under customer stock purchase plan	38,977	195	879
Redemption of preferred stock	-	-	(39)
December 31, 1995	17,496,051	87,480	282,942
Issued under dividend reinvestment plan	49,023	245	1,278
Issued under customer stock purchase plan	9,913	50	245
December 31, 1996	17,554,987	$87,775	$284

Cumulative Preferred Stock, $100 par value; 1,200,000 shares authorized:

	Series	Final Redemption Date	Redemption Price 12/31/96	Shares Outstanding December 31, 1996	1995
Subject to Mandatory Redemption:					
	4 1/2%		$107.00	70,300	70,300
	4.75%		106.75	20,000	20,000
	4.35%		102.00	60,000	60,000
	4.96%		101.00	60,000	60,000
	7.72%	(a)	101.00	-	130,000
				210,300	340,300
Subject to Mandatory Redemption:					
	6.20%	10/1/08 (b)		200,000	200,000
	6.80%	10/1/27 (b)		150,000	150,000
				350,000	350,000
Total				560,300	690,300

(a) Optionally redeemed January 1, 1996, at a redemption price of $101.00 per share. Costs associated with this redemption were charged directly to retained earnings.
(b) Cannot be redeemed prior to October 1, 2003.

Reference is made to the caption "Financing Program" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for details on issuances and redemptions of capital stock.

In May 1996, the Company converted its Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan from original issue to open market purchase of common shares. Such plans have been superseded as of January 1, 1997 by the Company's Stock Purchase Plan, which is discussed below.

Expenses incurred on issuance of capital stock are accumulated and reported as a reduction in common stock equity. These expenses are not being amortized, except that, as directed by the PSC, certain issuance and redemption costs and unamortized expenses associated with certain issues of preferred stock that were redeemed have been deferred and are being amortized over the remaining lives of the issues subject to mandatory redemptions.

By Order, issued and effective December 4, 1996, the PSC has authorized the issuance and sale of certain debt and equity securities of the Company.

The Order authorizes the Company, through December 31, 1999, to: 1) issue and sell up to $40.0 million of new securities comprised of common stock and/or medium term notes, 2) acquire not more than 2.5 million shares of its issued and outstanding common stock of which the Company plans to repurchase approximately 250,000 shares during 1997, and 3) effective January 1, 1997, combine its existing Automatic Dividend Reinvestment and Stock Purchase Plan, its Customer Stock Purchase Plan and its Employee Stock Purchase Plan into a single plan. Such Plan may operate as an original issue or open market purchase plan.

NOTE 6 - CAPITALIZATION - LONG-TERM DEBT

Details of long-term debt are shown below:

Series	Maturity Date	December 31, 1996	December 31, 1995
		(Thousands of Dollars)	
First Mortgage Bonds (Net of Sinking Fund Requirements):			
6.10% (a)	April 28, 2000	$10,000	$10,000
7.70% (a)	June 12, 2000	25,000	25,000
8 3/4% (b)	May 1, 2001	-	30,000
7.97% (a)	June 11, 2003	8,000	8,000
7.97% (a)	June 13, 2003	8,000	8,000
6.46% (a)	August 11, 2003	10,000	10,000
6 1/4% (c)	June 1, 2007	4,415	4,500
9 1/4%	May 1, 2021	70,000	70,000
8.12% (a)	August 29, 2022	10,000	10,000
8.14% (a)	August 29, 2022	10,000	10,000
8.375% (c)	December 1, 2028	16,700	16,700
		172,115	202,200
Promissory Notes:			
1984 Series A (7 3/8%) (d)	October 1, 2014	16,700	16,700
1984 Series B (7 3/8%) (d)	October 1, 2014	16,700	16,700
1985 Series A (Var. rate) (d)	November 1, 2020	36,250	36,250
1985 Series B (Var. rate) (d)	November 1, 2020	36,000	36,000
1987 Series A (Var. rate) (d)	June 1, 2027	33,700	33,7[illegible]
1987 Series B (Var. rate) (d)	June 1, 2027	9,900	9,9[illegible]
5.38% (a)	January 15, 1999	20,000	20,000
7.85% (a)	July 2, 2004	15,000	15,000
		184,250	184,250
Secured Notes Payable of Subsidiary		6,299	3,688
Unamortized Discount on Debt		(624)	(893)
Total long-term debt		$362,040	$389,245

(a) Issued under the Company's Medium Term Note Program effective March 1992 to December 1996. (b) Optionally redeemed May 1, 1996 at a redemption price of 102.07% of principle amount. (c) First Mortgage Bonds issued in connection with the sale by the New York State Energy Research and Development Authority (NYSERDA) of tax-exempt pollution control revenue bonds. (d) Promissory Notes issued in connection with the sale by NYSERDA of tax-exempt pollution control revenue bonds.

Medium Term Notes: By Order, issued and effective December 4, 1996, the PSC authorized the Company to issue and sell not later than December 31, 1999 a combination of new debt securities and/or common stock totaling not more than $40.0 million in the aggregate.

NYSERDA: The NYSERDA Pollution Control Revenue Bonds issued in 1985 (Series A and B) and 1987 (Series A and B) (collectively, the "1985 and 1987 NYSERDA Bonds") are variable rate obligations subject to weekly repricing and investor tender. The Company has the right, exercisable independently with respect to each series of the 1985 and 1987 NYSERDA Bonds, to convert the Bonds of each such series to a fixed rate for the remainder of their term. In its rate orders, the PSC has authori[illegible] deferred accounting for the interest costs on the Company's 1985 and 1987 Series A and B Promis-

sory Notes which were issued in connection with the sale of the 1985 and 1987 NYSERDA Bonds. The authorization provides for full recovery of the variance between that portion of the actual interest costs supporting utility operations and the interest costs allowed in rates. The percent of interest costs supporting utility operations represents approximately 95% of the total costs. The deferred balances under such accounting were $2.4 million and $1.3 million at December 31, 1996 and 1995, respectively, and were included in "Regulatory Assets" in the Consolidated Balance Sheet. Such deferred balances are to be addressed in future rate cases. By Order, issued and effective December 4, 1996, the PSC authorized the Company to issue up to $132.55 million of tax-exempt NYSERDA Pollution Control Revenue Bonds for refunding purposes or for the purpose of refinancing, if economical, a like amount of such bonds presently outstanding.

Letters of Credit: The Company has in place irrevocable letters of credit which support certain payments required to be made on the 1985 and 1987 NYSERDA Bonds. Such letters of credit expire in 1999. The Company anticipates being able to extend letters of credit if the interest rate on the related series of such bonds is not converted to a fixed interest rate. If the Company were unable to extend the letter of credit that is related to a particular series of such bonds, that series would have to be redeemed unless a fixed rate of interest became effective. Payments made under the letters of credit in connection with purchases of tendered 1985 and 1987 NYSERDA Bonds are repaid with the proceeds from the remarketing of such Bonds. To the extent the proceeds are not sufficient, the Company would be required to reimburse the bank that issued the letter of credit for the amount of any resulting draw under the letter of credit by the expiration date of the letter of credit. The letter of credit expiration date for the letters of credit supporting the 1985 NYSERDA Bonds is November 16, 1999, and the letter of credit expiration date for the letters of credit supporting the 1987 NYSERDA Bonds is September 16, 1999. By Order, issued and effective December 4, 1996, the PSC authorized the Company to replace its current letters of credit with an alternate credit assurance mechanism.

Interest Rate Cap: By Order, issued and effective December 4, 1996, the PSC authorized the Company to employ interest rate caps, collars and floors to manage interest rate risk associated with its variable rate 1985 and 1987 NYSERDA Bonds and to recognize the associated costs as interest expense for rate-making purposes. The Company entered into a three-year interest rate cap agreement with a bank to manage exposure to upward changes in interest rates on the 1985 and 1987 NYSERDA Bonds. Under this agreement, in the event a nationally recognized tax-exempt bond interest rate index exceeds 8%, the Company will receive a payment from such bank equal to the amount by which the actual interest costs on such bonds exceeds 8% per annum. This agreement has the effect of limiting the interest rate the Company must pay on such bonds (on a $115.9 million notional amount) to the lesser of their actual rate or 8% per annum. In the event such bank failed to make any required payment under such interest rate cap agreement, the Company's exposure would be limited to a maximum interest rate of 15% per annum under the terms of such bonds.

Debt Expense: Expenses incurred on debt issues and any discount or premium on debt are deferred and amortized over the lives of the related issues. Expenses incurred on debt redemptions prior to maturity have been deferred and are generally being amortized over the shorter of the remaining lives of the related extinguished issues or the new issues as directed by the PSC.

Debt Covenants: Certain debt agreements require the maintenance by the Company of certain financial ratios and contain other restrictive covenants.

Subsidiary Debt: Secured notes payable of a subsidiary of the Company consist of term loans to finance the installation of energy conservation equipment at various host facilities, located primarily in the Northeastern United States. The majority of such loans accrue interest at the prime lending rate. Such loans are secured principally by contractual rights to payments from third parties and, in certain instances, security interests in project assets.

NOTE 7 - POSTEMPLOYMENT BENEFITS

Retirement Income Plan: The Company has a non-contributory retirement income plan (Retirement Plan) covering substantially all of its employees. The Retirement Plan provides pension benefits that are

based on the employee's compensation and years of service. It has been the Company's practice to provide periodic updates to the benefit formula stated in the Retirement Plan.

The Company's funding policy is to make annual contributions equal to the amount of net periodic pension cost, but not in excess of the maximum allowable tax-deductible contribution under the federal income tax law nor less than the minimum requirement under the Employee Retirement Income Security Act of 1974.

The favorable return on plan assets has resulted in net periodic pension income of which 25% was allocated to capital projects in 1996 and 27% in 1995 and 1994. This allocation follows the payroll distribution.

Net periodic pension income for 1996, 1995 and 1994 include the following components:

	1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 4,556	$ 3,877	$ 5,876
Interest cost on projected benefit obligation	14,594	14,449	13,256
Actual return on Retirement Plan assets	(30,772)	(38,849)	(6,947)
Net amortization and deferral	1,872	9,896	(14,213)
Net periodic pension (income)	$ (9,750)	$(10,627)	$ (2,028)

The net periodic pension income for 1996, 1995 and 1994 was determined using a weighted average discount rate of 7.5%, 8.5% and 6.25%, respectively, and a rate of increase in future compensation levels of 4.5% for 1996 and 5.5% for 1995 and 1994. The expected long-term rate of return on Retirement Plan assets used in determining the net periodic pension income was 9.5%, 10.5%, and 8.5% for 1996, 1995, and 1994, respectively.

The following table sets forth the Retirement Plan's funded status at October 1, 1996 and 1995 and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1996 and 1995:

	1996	1995
	(Thousands of Dollars)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $173,424 and $170,039	$176,631	$173,281
Projected benefit obligation for service rendered to date	$199,416	$196,038
Retirement Plan assets at market value	268,615	250,246
Excess of Retirement Plan assets over projected benefit obligation	69,199	54,208
Unrecognized net gain	(58,464)	(52,846)
Prior service cost not yet recognized in net periodic pension cost	3,273	3,531
Unrecognized net asset being amortized over 15 years	(3,336)	(3,971)
Prefunded Pension Cost recognized in the Consolidated Balance Sheet	$ 10,672	$ 922

Retirement Plan assets consist primarily of equities, real estate and fixed income securities. The Retirement Plan is deemed to be fully funded for federal income tax purposes, therefore, the Company did not make any contributions to the Retirement Plan during 1996 or 1995.

The actuarial present value of projected benefit obligations for October 1, 1996 and 1995 was determined using a weighted average discount rate of 7.75% and 7.5%, respectively, and an assumed rate of increase in compensation of 4.5% for 1996 and 1995.

Pursuant to the PSC Statement of Policy and Order Concerning the Accounting and Rate-making Treatment for Pensions and Postretirement Benefits Other than Pensions (OPEB), issued September 7, 1993 (Pension and OPEB Order), effective January 1, 1993 the Company began amortizing each year's experienced gain or loss over ten years.

Pursuant to the Pension and OPEB Order, deferred accounting has been granted by the PSC for any variation (above or below) between actual costs of the Company's pension plans and those costs allowed for rate-making purposes. Such amounts are included in regulatory liabilities in the Consolidated Balance Sheet.

Other Postretirement Benefits: The Company provides certain health care and life insurance benefits for retired employees through its postretirement benefit plan (Benefit Plan). Substantially all of the Company's employees may become eligible for these benefits if they reach retirement age while working for the Company. These and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits paid during the year. In order to recover a portion of the costs of these benefits, the Company requires employees who retire on or after October 1, 1994 to contribute toward the cost of such benefits.

Net periodic postretirement benefit cost for 1996, 1995 and 1994 includes the following components:

	1996	1995	1994
	(Thousands of Dollars)		
Service cost - benefits attributed to the period	$ 1,875	$ 1,384	$ 2,392
Interest cost on accumulated postretirement benefit obligation	5,149	4,613	4,654
Actual return on Benefit Plan assets	(1,335)	(875)	(426)
Amortization of Transition Obligation	3,114	3,114	3,114
Net amortization and deferral	(784)	(1,837)	928
Net periodic postretirement benefit cost	$ 8,019	$ 6,399	$10,662

The Company is amortizing the unfunded accumulated postretirement benefit obligation (Transition Obligation) at January 1, 1993 over a 20-year period.

The net periodic postretirement benefit cost of the Benefit Plan for 1996, 1995 and 1994 was determined using a weighted average discount rate of 7.5%, 8.5% and 6.25%, respectively, and a rate of increase in future compensation levels of 4.5% for 1996 and 5.5% for 1995 and 1994. The expected long-term rate of return of Benefit Plan assets used in determining the net periodic postretirement benefit cost was 6.6% for 1996, 6.7% for 1995 and 6.6% for 1994.

The Benefit Plan's funded status reconciled with the Company's Consolidated Balance Sheet is as follows:

	December 31, 1996	1995
	(Thousands of Dollars)	
Accumulated postretirement benefit obligation:		
Retirees	$(33,427)	$(31,899)
Fully eligible employees	(4,632)	(4,706)
Other employees	(33,422)	(31,495)
	(71,481)	(68,100)
Benefit Plan assets at fair value	31,402	22,899
Excess of accumulated postretirement benefit obligation over Benefit Plan assets	(40,079)	(45,201)
Unrecognized net gain	(11,419)	(8,922)
Prior service cost not yet recognized in net periodic postretirement benefit cost	(149)	(160)
Unrecognized Transition Obligation	49,807	52,921
Postretirement benefit liability recognized in the Consolidated Balance Sheet	$ (1,840)	$ (1,362)

The accumulated postretirement benefit obligation under the Benefit Plan at December 31, 1996 and 1995 was determined using a weighted average discount rate of 7.75% and 7.5%, respectively and a rate if increase in future compensation levels of 4.5% for both 1996 and 1995, respectively. The expected long-term rate of return of Benefit Plan assets used in determining the periodic postretirement benefit cost was 6.6% for 1996 and 6.7% for 1995.

The assumed health care cost trend is 11% in the early years and trends down to an ultimate rate of 5.5% by the year 2010. A 1% increase in health care cost trend rate assumptions would produce an increase in the accumulated postretirements benefit obligation at December 31, 1996 and 1995 of $9.4 and $8.9 million, respectively, and an increase in the aggregate service and interest cost of the net periodic postretirement benefit cost of $1 million and $873,000 for 1996 and 1995, respectively.

The Company has established a qualified funding vehicle for such retirement benefits for collective bargaining employees and a similar vehicle for management employees in the form of qualified Voluntary

Employee Beneficiary Association (VEBA) trusts. The Company funded the VEBA trusts in 1996, 1995 and 1994 with tax-deductible contributions totaling $7.4 million, $7.2 million and $8.3 million, respectively. The VEBA trusts consists primarily of equities and fixed income securities.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Construction Program: Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the Company's construction program for the five-year period 1997-2001.

Roseton Plant: The Company is acting as agent for the cotenant owners with respect to operation of the Roseton Plant. Generally, the owners share the costs and expenses of the operation of the Roseton Plant in accordance with their respective ownership interests. The Company's share of direct operating expense for the Roseton Plant is included in the appropriate expense classification in the accompanying Consolidated Statement of Income.

The Company, under a 1968 Agreement (Basic Agreement), has the option to purchase the interests of Niagara Mohawk (25%) and of Consolidated Edison Company of New York, Inc. (Con Edison) (40%) in the Roseton Plant in December 2004. The exercise of this option is subject to PSC approval.

On March 30, 1994, Niagara Mohawk and the Company entered into a Letter of Understanding which, among other things, provides for:

(1) consideration by the Company, Niagara Mohawk and Con Edison for staggering the operation of the two units of the Roseton Plant in order to take advantage of current market costs for energy and capacity; and

(2) during the period May 1997 through April 2004, the Company may from time to time issue requests for proposals to purchase energy and capacity on the open market. Niagara Mohawk, among others, will be requested by the Company to bid on these future purchases.

(3) Subject to regulatory approval, Niagara Mohawk and the Company may enter into agreements, which would cover (i) the purchase by the Company of the following electric capacity and associated energy from Niagara Mohawk if needed: 15 MW each year, subject to a reservation charge, commencing in 1998 through 2004, up to a total of 7[illegible] MW, and up to an additional 150 MW in the period 2001 through 2004 not subject to a reservation charge; (ii) the option of Niagara Mohawk to bid competitively for the Company's long-term purchases of capacity and energy during the period May 1997 through April 2004 as indicated in Item (2) and (iii) a revision in the Company's 1968 option to purchase Niagara Mohawk's 25% interest in the Roseton Plant in 2004 which would give Niagara Mohawk an option to retain said 25% interest. The Company and Niagara Mohawk have not yet entered into any such agreements.

Entering into the agreements contemplated by the Letter of Understanding will result in capital and operating and maintenance cost savings. The Company's option to buy Con Edison's interest in the Roseton Plant is not affected by the Letter of Understanding.

Nuclear Liability and Insurance: The Price-Anderson Act is a federal law which limits the public liability which can be imposed with respect to a nuclear incident at a licensed nuclear electric generating facility. Such Act also provides for assessment of owners of all licensed nuclear units in the United States for losses in excess of certain limits due to a nuclear incident at any such licensed unit. Under the provisions of the Price-Anderson Act, the Company's potential assessment (based on its 9% ownership interest in the Nine Mile 2 Plant and assuming that the other Nine Mile 2 Plant cotenants were to contribute their proportionate shares of the potential assessments) would be $6.8 million (subject to adjustment for inflation) and the Company could be assessed $339,800 (subject to adjustment for inflation) in respect to an additional surcharge, but would be limited to a maximum assessment of $900,000 in any year with respect to any nuclear incident. The public liability insurance coverage of $200 million required under the Price-Anderson Act for the Nine Mile 2 Plant is provided through Niagara Mohawk.

The Company also carries insurance to cover additional costs of replacement power (under a Busi-

ness Interruption and/or Extra Expense Insurance Policy) incurred by the Company in the event of a prolonged accidental outage of the Nine Mile 2 Plant. This insurance arrangement provides for payments of up to $233,200 per week if the Nine Mile 2 Plant experiences a continuous accidental outage which extends beyond 21 weeks. Such payments will continue for 52 weeks after expiration of the 21-week deductible period, and thereafter the insurer shall pay 80% of the weekly indemnity for a second and third 52-week period. Subject to certain limitations, the Company may request prepayment, in a lump sum amount, of the insurance payments which would otherwise be paid to it with respect to said third 52-week period, calculated on a net present value basis.

The Company is insured as to its respective interest in the Nine Mile 2 Plant under property damage insurance provided through Niagara Mohawk. The insurance coverage provides $500 million of primary property damage coverage for Units 1 and 2 of the Nine Mile Point Nuclear Station and $2.25 billion of excess property damage coverage for the Nine Mile 2 Plant. Such insurance covers decontamination costs, debris removal and repair and/or replacement of property.

The Company intends to maintain, or cause to be maintained, insurance against such risks at the Nine Mile 2 Plant, provided such coverage can be obtained at an acceptable cost.

Natural Gas Supply: The Company presently has in place five firm contracts (Contracts) for the supply of an aggregate of 10,497,708 Mcf. of natural gas, all of which are with third-party gas suppliers (Suppliers). Under the Contracts, the Suppliers deliver the gas to interstate pipeline companies (Pipelines) and the Pipelines deliver the gas to the Company's gas transmission system under separate firm transportation contracts which the Company has in place with such Pipelines. With the exception of 20,000 Mcf. per day of gas purchased from Canadian sources under contracts which expire in January 2012, or approximately 30% of total gas purchases, all of the above gas supply contracts will terminate in 1997 after the 1996-1997 winter heating season and will be replaced before the next winter heating season.

The Company has in aggregate, gas storage capability of 39,604 Mcf. per day under long-term contracts. The Company has a firm gas peaking service, under contract, for the supply of 9,804 Mcf. per day for 15 days during the period November 1-March 31. This contract became effective November 1, 1995 and will remain in effect through March 31, 1998.

In addition to the above, the Company has an option for the supply of up to 100,000 Mcf. per day of gas during April through October of each year for use as boiler gas at the Roseton Plant. The Company is in the process of discussing option modifications that allow for greater market flexibility.

In 1992, FERC issued its final rule (Order 636) regarding the unbundling of natural gas supply services from transportation and storage services. These changes require the Company to pay a share of certain transition costs incurred by the Pipelines as a result of Order 636.

The Company has been billed $4.3 million of transition costs through December 31, 1996 by the Pipelines. The Public Service Commission Order issued December 20, 1994 in Case 93-G-0932 allows New York State Utilities to collect transition costs from firm sales and firm transportation customers. As a result of the PSC's Order, the Company collects all transition costs incurred which are applicable to the firm residential, commercial and industrial customers through the gas adjustment clause and collects the transition costs applicable to the firm transportation customers through a surcharge factor billed directly to the firm transportation customers. The aggregate amount of transition costs which will be incurred and collected by the Company will depend on the outcome of FERC proceedings. The Company projects that the aggregate amount of transition costs could reach $6.0 million over the next several years. The Company expects to continue to recover such costs through its gas cost adjustment clause.

Environmental Matters:

General: On an ongoing basis, the Company assesses environmental issues which could impact the Company and its ratepayers.

Clean Water Act Compliance: The Company is a party to a proceeding before the New York State Department of Environmental Conservation related to the processing of permit renewal applications for the Company's generating stations under the State Pollu-

tion Discharge Elimination System. At this stage of the proceeding, the Company can make no determination as to the outcome of the proceeding or the impact, if any, on the Company's financial position.

Clean Air Act Amendments: The Clean Air Act Amendments of 1990 (CAA Amendments) added several new programs which address attainment and maintenance of national ambient air quality standards. These include control of emissions from fossil-fueled electric power plants that affect "acid rain" and ozone.

The Phase II "acid rain" emissions reduction requirements do not apply to the Company's generating plants until January 1, 2000; however, the Company has elected to have the Roseton Plant covered under the Phase I acid rain regulation 40 CFR Part 72 which went into effect in 1995. More specifically, the Roseton Plant has been conditionally identified as a substitute for a Phase I plant. Such a substitution, if implemented by the Company, would result in additional emissions allowances for the Roseton Plant. Emission allowances that are not needed for current year emissions may be held for use in future years or sold. Allowances currently held by the Company have a present market value of approximately $1.8 million. A decision by the Company to implement a substitution plan must be made each year by December 1. The Company has made such election in December 1996 and 1995.

The Company's emissions of nitrogen oxides were subject to additional controls effective May 31, 1995 under Title I of the CAA Amendments. The Company has installed appropriate controls in compliance with this requirement. The Northeast Ozone Transport Commission, of which New York State is a member, has agreed that additional reductions of nitrogen oxides emissions will be required in 1999 and, possibly, in the year 2003. Because regulations have not yet been promulgated by New York State to implement this agreement, the specific reductions required at the Company's facilities have not been determined. The Company expects that it will have adequate financial resources to comply with the requirements of the CAA Amendments.

Former Manufactured Gas Plant Facilities: In May 1995, the City of Newburgh, New York (City) filed suit against the Company in the United States District Court for the Southern District of New York. The City alleges that the Company has released certain allegedly hazardous substances without a permit from the site of the Company's former coal gasification plant (Central Hudson Site) in Newburgh, New York into the ground at the Central Hudson Site and into adjacent and nearby property of the city, in violation of the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the federal Resource Conservation and Recovery Act (RCRA) and the federal Emergency Planning and Community Right to Know Act (EPCRA). The City also alleges a number of nuisance, trespass, damage and indemnification claims pursuant to New York State law.

The City seeks injunctive relief against such alleged disposal, storage or release of hazardous substances at the Central Hudson Site, remediation and abatement of the conditions alleged to lead to endangerment of the City's property, payment of restitution of clean-up costs and money damages of at least $70 million, assessment of certain civil penalties under RCRA, CERCLA and EPCRA, and recovery of the City's costs and attorneys' fees in such action.

In its answer to the City's complaint, the Company denied liability and asserted affirmative defenses and counterclaims against the City. The Company also filed a third-party complaint against "John Doe" defendants whose identities are presently unknown but who may be responsible for some or all of the contamination that is alleged to exist on the City's property.

In October 1995, the Company and the New York State Department of Environmental Conservation (NYSDEC) entered into an Order on Consent regarding the development and implementation of an investigation and remediation program for the Central Hudson Site and the City's adjacent and nearby property. Following approval of the workscope of the investigation and remediation program in June 1996, studies were initiated in July 1996 in fulfillment of the Company's obligation under the Order of Consent. Preliminary results of these studies indicate the presence of tar-like substance in portions of the study area, which may be related to the manufacture of gas by the Company and a predecessor of the Company; however, these studies are not expected to be completed until early 1998. Inasmuch as the Company and the City have been unsuccessful in reaching a

settlement agreement, a schedule of proceedings has been approved by the District Court. Such schedule calls for exchange of documents and deposition of witnesses beginning in December 1996 and continuing into 1997.

At this time, the Company can make no prediction as to the outcome of this matter, nor can it make reasonable estimates of the cost of the activities required under the Order on Consent. However, the Company has put its insurance carriers on notice and intends to pursue reimbursement from them. The Company cannot predict the extent of reimbursement that will be available from its carriers at this time.

By letter dated September 22, 1995, the Company petitioned the PSC for authorization to defer costs related to this matter, including legal defense costs, but excluding the Company's labor, related to environmental site investigation and remediation actions that were incurred by the Company in 1995 and thereafter in connection with this matter. These future expenses are not reasonably estimable by the Company at this time. The Company has deferred costs expended to date that it expects to be recovered in future rates. The cumulative deferred costs for 1996 and 1995 amounted to $1.4 million and $719,700, respectively, and were included in "Deferred Charges-Other" in the Consolidated Balance Sheet.

Asbestos Litigation: Since 1987, the Company, along with many other parties, has been joined as a defendant or third-party defendant in 1,014 asbestos lawsuits commenced in New York State and federal courts. The plaintiffs in these lawsuits have each sought millions of dollars in compensatory and punitive damages from all defendants. The cases were brought by or on behalf of individuals who have allegedly suffered injury from exposure to asbestos, including exposure which allegedly occurred at Company facilities.

As of December 31, 1996, of the 1,014 cases that had been brought against the Company, 738 remained pending against the Company. The 276 cases that were no longer pending against the Company as of December 31, 1996 were resolved as follows: (1) the Company negotiated voluntary dismissals in 45 cases and won summary judgement dismissals in 9 (2) 116 third-party claims were extinguished with respect to the Company when the third-party plaintiff, Owens-Corning Fiberglas settled the cases with the plaintiffs; and (3) the Company settled 106 cases. Although the Company is presently unable to assess the validity of the remaining asbestos lawsuits, and accordingly cannot determine the ultimate liability relating to these cases, based on information known to the Company at this time, including its experience in settling asbestos cases and in obtaining dismissals of asbestos cases, the Company believes that the cost to be incurred in connection with the remaining lawsuits will not have a material adverse effect on the Company's financial position.

The Company is insured under successive comprehensive general liability policies issued by a number of insurers, has put such insurers on notice of the asbestos lawsuits and has demanded reimbursement for its defense costs and liability.

Tax Matters:

Assessments: The Internal Revenue Service (IRS) has completed its examination of the Company's federal income tax returns for 1987 and 1988. The IRS Agents' Report proposed significant adjustments related to the tax in-service date of the Nine Mile Point 2 Plant and various other items. In May 1994, the Company filed a Protest with the Appeals Office of the IRS. The IRS Appeals Office subsequently requested Technical Advice from the National Office of IRS with regard to the tax in-service date. In May 1996, the IRS National Office issued a Technical Advice Memorandum (TAM), in which the matter was resolved in favor of the Nine Mile Point 2 Plant cotenants. As a result of the TAM, and a subsequent agreement between the Company and the Appeals Office of the IRS on most other matters, the Company believes it has no further tax liabilities for those years, and in fact, the Company expects to receive a refund in 1997. Receipt of the refund is contingent upon review by the Joint Committee on Taxation of the United States Congress.

Rental Expenses and Lease Commitments: The Company has lease commitments expiring at various dates, principally for real property and data processing equipment. None of these leases involves any major facilities, any material noncancelable rental commitments or capital leases.

Purchased Power Commitments: Under federal and New York State laws and regulations, the Company is required to purchase the electrical output of unregulated cogeneration facilities (IPPs) which meet certain criteria for Qualifying Facilities, as such term is defined in the appropriate legislation. Purchases are made under long-term contracts which require payment at rates higher than what can be purchased on the wholesale market. These costs are currently fully recoverable through the Company's electric fuel adjustment clause. IPPs with which the Company has contracts represent 4.5% of the Company's energy purchases in 1996.

Other Matters: The Company is involved in various other legal and administrative proceedings incidental to its business which are in various stages. While these matters collectively involve substantial amounts, it is the opinion of management that their ultimate resolution will not have a material adverse effect on the Company's financial position or results of operations.

Included in such proceedings are lawsuits against the Company arising from a November 1992 explosion in a dwelling in Catskill, New York. These lawsuits include: one alleging personal injuries, including the death of an occupant, and property damage and seeking recovery of an unspecified amount of compensatory and punitive damages; and one alleging personal injuries and property damage and seeking compensatory and punitive damages in the sum of $4.0 million.

The PSC, by Order issued and effective January 7, 1994, approved an Agreement which provides for a program for evaluating and replacing cast iron and unprotected steel pipeline facilities, and for an investment in four permanent employee training centers. The Company's shareholders contributed $1.0 million in 1995 and $500,000 in 1994 toward the costs of such training centers and replacement program. No shareholder contribution was required in 1996, however, under such Agreement the Company's shareholders may be required to contribute in 1997 from zero to $500,000 toward the cost of such pipeline replacement program, depending on the Company's completion of certain tasks by specified dates. The Company believes these tasks have been completed by the specified dates and, therefore, the Company's shareholders should have no further contribution obligations under such Agreement.

In addition to the above, on February 12, 1994, a fire and an explosion destroyed a residence in the Village of Wappingers Falls, New York, in the Company's service territory. A short time later, a second explosion and fire destroyed a nearby commercial facility. Lawsuits have been commenced against the Company arising out of the Wappingers Falls incident including: one alleging property damage and seeking recovery of compensatory and punitive damages in the sum of $1.0 million; and one alleging property damage and seeking recovery of $250,000 in compensatory damages; and one alleging personal injuries and property damage and seeking an unspecified amount of damages against the Company.

The Company is investigating the above claims and presently has insufficient information on which to predict their outcome. The Company believes that it has adequate insurance to cover any compensatory damages that might be awarded. The Company's insurance, however, does not extend to punitive damages which, if awarded, could have a material adverse effect on the Company's financial position.

NOTE 9 - DEPARTMENTAL INFORMATION

The Company is engaged in the electric and natural gas utility businesses and serves the Mid-Hudson Valley region of New York State. Total revenues and operating income before income taxes (expressed as percentages), derived from electric and gas operations for each of the last three years, were as follows:

	Percent of Total Revenues		Percent of Operating Income Before Income Taxes	
	Electric	Gas	Electric	Gas
1996	**81%**	**19%**	**88%**	**12%**
1995	80%	20%	90%	10%
1994	80%	20%	89%	11%

For the year ended December 31, 1996, the Company served an average of 263,781 electric and 60,523 gas customers. Of the Company's total electric revenues during that period, approximately 44% was derived from residential customers, 31% from commercial customers, 18% from industrial

customers and 7% from other utilities and miscellaneous sources. Of the Company's total gas revenues during that period, approximately 45% was derived from residential customers, 33% from commercial customers, 4% from industrial customers, 9% from interruptible customers and 9% from miscellaneous sources (including revenues from transportation of customer-owned gas).

The Company's largest customer is International Business Machines Corporation (IBM), which accounted for approximately 10% of the Company's total electric revenues and approximately 4% of its total gas revenues for the year ended December 31, 1996. Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding IBM.

Certain additional information regarding these segments is set forth in the following table. General corporate expenses, property common to both segments and depreciation of such common property have been allocated to the segments in accordance with practice established for regulatory purposes.

	Electric			Gas		
	1996	1995	1994	1996	1995	1994
	(Thousands of Dollars)					
Operating Revenues	$418,761	$409,445	$411,082	$ 95,210	$102,770	$104,586
Operating Expenses:						
Fuel and purchased electricity	114,397	113,263	111,984	50,636	62,339	60,588
Depreciation and amortization	38,401	37,503	36,597	4,179	3,964	3,783
Other, excluding income tax	170,498	168,313	172,057	27,331	26,899	29,483
Total	323,296	319,079	320,638	82,146	93,202	93,854
Operating Income before Income Tax	95,465	90,366	90,444	13,064	9,568	10,732
Income tax, including deferred income tax - net	28,592	26,632	25,334	4,108	2,408	2,709
Operating Income	$ 66,873	$ 63,734	$ 65,110	$ 8,956	$ 7,160	$ 8,023
Construction Expenditures	$ 43,359	$ 41,195	$ 49,316	$ 6,501	$ 9,074	$ 8,729
Identifiable Assets at December 31*						
Net utility plant	$784,582	$784,345	$776,169	$106,348	$103,979	$ 96,652
Construction work in progress	39,346	38,978	46,879	9,353	9,792	11,373
Total utility plant	823,928	823,323	823,048	115,701	113,771	108,025
Materials and supplies	22,668	23,167	27,080	5,427	4,423	6,309
Total	$846,596	$846,490	$850,128	$121,128	$118,194	$114,334

** Identifiable assets not included herein are considered to be corporate assets and have not been allocated between the electric and gas segments.*

NOTE 10 - FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Temporary Cash Investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Cumulative Preferred Stock Subject to Mandatory Redemption: The fair value is estimated based on the quoted market price of similar instruments.

Long-Term Debt: The fair value is estimated ba on the quoted market prices for the same or simi issues or on the current rates offered to the Company for debt of the same remaining maturities and quality.

Notes Payable: The carrying amount approximates fair value because of the short maturity of those instruments.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1996		December 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands of Dollars)			
Cumulative preferred stock subject to mandatory redemption	$ (35,000)	$ (33,950)	$ (35,000)	$ (34,875)
Long-term debt (including current maturities)	(363,402)	(355,002)	(390,822)	(411,299)

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected financial data for each quarterly period within 1996 and 1995 are presented below:

Quarter Ended:	Operating Revenues	Operating Income	Income Available for Common Stock	Earnings Per Average Share of Common Stock Outstanding
	(Thousands of Dollars)			(Dollars)
1996				
March 31	$153,846	$27,092	$21,014	$1.20
June 30	116,994	16,366	10,195	.58
September 30	117,684	18,000	12,857	.73
December 31	125,447	14,371	8,407	.48
1995				
March 31	$144,686	$24,204	$18,273	$1.06
June 30	118,618	14,731	9,574	.55
September 30	127,547	18,817	12,260	.70
December 31	121,364	13,142	7,543	.43

Directors

L. Wallace Cross
Poughkeepsie, NY
Executive Vice President and Chief Financial Officer of the Corporation; retired; member of the Committees on Audit and Finance *1990

Jack Effron
Poughkeepsie, NY
President, EFCO Products, Inc.; Chairman of the Committee on Compensation and Succession and member of the Executive Committee and the Committee on Finance *1987

Frances D. Fergusson
Poughkeepsie, NY
President, Vassar College; member of the Committee on Compensation and Succession *1993

Heinz K. Fridrich
Fernandina Beach, FL
Courtesy Professor, University of Florida, Gainsville, FL; Former Vice President—Manufacturing, International Business Machines Corp.; Chairman of the Committee on Audit; member of the Executive Committee *1988

Edward F.X. Gallagher
Newburgh, NY
President and Owner, Gallagher Transportation Services; member of the Committee on Finance *1984

Paul J. Ganci
Poughkeepsie, NY
President and Chief Operating Officer; member of the Executive Committee on Finance *1989

Charles LaForge
Rhinebeck, NY
President of Wayfarer Inns and Owner of Beekman Arms; member of the Retirement Committee and the Committee on Audit *1987

John E. Mack, III
Poughkeepsie, NY
Chairman of the Board and Chief Executive Officer; Chairman of the Executive, Finance and Retirement Committees *1981

Edward P. Swyer
Albany, NY
President, The Swyer Companies; member of the Committee on Compensation and Succession and the Retirement Committee *1990

** Year joined the board*

Richard H. Eyman and Howard C. St. John retired from the Board effective April 1, 1996

Officers of The Board

John E. Mack, III
Chairman of the Board and Chief Executive Officer; Chairman of the Executive, Finance and Retirement Committees

Jack Effron
Chairman of the Committee on Compensation and Succession

Heinz K. Fridrich
Chairman of the Committee on Audit

Officers

John E. Mack, III
Chairman of the Board and Chief Executive Officer

Paul J. Ganci
President and Chief Operating Officer

Carl E. Meyer (1)
Senior Vice President — Customer Services

Allan R. Page (1)
Senior Vice President — Corporate Services

Ronald P. Brand
Vice President — Engineering and Environmental Affairs

Benon Budziak
Vice President — Production

Joseph J. DeVirgilio, Jr.
Vice President — Human Resources and Administration

Ellen Ahearn
Secretary

Donna S. Doyle
Controller

Steven V. Lant
Treasurer and Assistant Secretary

Gladys L. Cooper
Assistant Vice President — Governmental Relations

Arthur R. Upright
Assistant Vice President — Cost & Rate and Financial Planning

William P. Reilly
Assistant Secretary and Assistant Treasurer

(1) *Promoted effective April 1, 1996*

Affirmative Action Statement of Policy
It is the policy of Central Hudson Gas & Electric Corporation to provide equal employment opportunities for all persons. Central Hudson is committed to recruit, hire, train and promote persons in all positions, without regard to race, sex, color, creed, religion, age, national origin, persons with a disability, disabled veteran or Vietnam-era veteran status, except where sex is a bona fide occupational qualification. The company will base decisions on employment so as to further the principle of equal employment opportunity. Central Hudson will insure that promotion decisions are in accord with principles of equal employment opportunity by imposing only valid requirements for promotional opportunities. Central Hudson will insure that all personnel actions such as compensation, benefits, transfers, layoffs, return from layoff, employer sponsored training, education, tuition assistance, social and recreational programs, will be administered without regard to race, sex, color, creed, religion, age, national origin, disability, disabled veteran or Vietnam-era veteran status.

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